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Mol, J.M.

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Value, Uncertainty, and Strategy in the Market for Popular Music

Joeri Mol

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Promotor: Prof. Dr. N.M. Wijnberg

Co-promotor: Dr. F.C.Wezel

Beoordelingscommissie: Prof. Dr. J.M. Pennings

Prof. Dr. A.M. Sorge

Prof. Dr. A. van Witteloostuijn

Voor Herman Soppe

Die geloofde dat er meer dan alleen een achteruit in mijn versnellingsbak zat

On a small, local train bound for the provinces

My PhD in Groningen started with great anxiety. Returning to the Netherlands from Tokyo I anticipated moving back to my roots in Rotterdam, where I was to start my PhD initially, but my supervisor was offered a chair in Groningen and I tallied along. When boarding the train for the first-time, Groningen was a great unknown. I still vividly remember my increasing uneasiness when the train left Zwolle taking me on an hour-long journey through a very uneventful landscape, and a sense of foreboding dawned on me that my life in Groningen was going to be an isolating experience. I had just read somebody's career being described as "*on a small, local train bound for the provinces, i.e. going nowhere*" and I felt like I had just embarked one. Yet, upon arriving in Groningen, I immediately felt enchanted by the city. Surely it was no metropolis, but its rich cultural life was ubiquitous. And although it is not the world's most beautiful campus, Zernike quickly grew on me for I soon befriended the people in my department and the SOM research school. As the years progressed and I acquainted myself with the vibrant academic life, my initial misperceptions of the city and the University quickly faded to the background.

This thesis marks the end of my endeavors during those four years in Groningen. At face value it is meant to read as a narrative of markets, products, institutions and organizations. But there is a deeper, more personal narrative; a narrative I told myself everyday justifying the time and energy I spent on completing it. In a nutshell, this narrative is based on my profound belief that organization lies at the basis of all social life and, therefore, studying it constituted a worthy cause to me.

Yet, being a 'big spender', I soon ran into red digits. In fact, this thesis would not have come to fruition had it not been for several key people and their

willingness to invest their personal time and energy toward supporting me along this journey. So in the course of pursuing my PhD I ended up running a lot of 'social debt' and with any debt eventually there is 'pay day.' As a small token of appreciation and only meant as a first down payment - I would like to express my gratitude to everyone who so cordially helped me in my pursuit of this research.

As such, I have very much enjoyed the time I spent at the University of Groningen. I am thinking of my direct colleagues within the cluster Strategy & Environment, but also more broadly, the Faculty of Management and Organization as well as the SOM research school. A special thanks goes out to Karin van Brummelen, Tjitske Buwalda, Truusje heb-ik-al-gedaan Cordes, Sylvia Luiken and Monique Wiltink. I would also like to acknowledge the indispensable help from Mr. Fix-it, Thijs Senseo Broekhuizen, for his relentless patience with my software (and other) incompetence and the rest of the 10 o' clock troika, Arvid Hoffman and Jasper Hotho. Furthermore I benefited greatly from discussions with dear friends in academia: Jan Willem Bok, Dessi Dikova, Wilfred Dolfsma, Marco van Gelderen, Graciela Nowenstein, Ivan Orosa Paleo, Sophie Schweizer and Peter van Kampen. For initiating me into Music (and ground my often too rash assumptions), Michel Nightmirror Banabila proved my refuge amicale.

Although I was invariably locked behind my PC in the WSN building, I managed to escape every once in a while. As such, I would like to thank the University of Leiden for allowing me to sit in on Japanese language courses. Also, I am grateful to Toshihiro Nishiguchi, Asami Onuki and Akira Takeishi for a very pleasurable stay in the summer of 2003 at the Institute for Innovation Research at Hitotsubashi University in Tokyo. Furthermore, I would like to thank the University of Pennsylvania, and the Wharton School in particular, for hosting my stay in 2005. Specifically, I would like to thank Roz Cohen, Ian MacMillan, Jitendra Singh and William Bielby for making this possible. I am very grateful to Paul DiMaggio for allowing me to attend his seminar at Princeton University.

I also would like to acknowledge funding from the Netherlands Scientific Organization (NWO), the Faculty of Management and Organization, the SOM Research School, and the Nicolaas Mulerius Fonds. For the provision of data and their willingness to meet for interviews, I would like to thank the Dutch Chamber of Commerce, Harold de Groot (Soundaware), Michel Admiraal, Ron Betist en Roland Flink (GFK Megacharts), Michiel Laan (Centrale Discotheek Rotterdam), Konrad Boehmer, George Knops, en Cees Vervoord (BUMA STEMRA), Paul Solleveld (NVPI), Henk Schell (Phononet), Basyl de Groot (3FM), Hans van Berkel (SENA), Quint Kik (CvdM), Steenbergen (Softmachine), Willem van Beusekom (NPI) and Sony Music Japan as well as MTV Japan. I have been very lucky with the research assistance of Arnout Schuitema, Bart Voorhuis, and Joram Timmerman, whose help was vital for the collection of the data used in this thesis.

Although the usual disclaimer applies and all erring is mine, I would like to acknowledge the help of my co-authors. It has been great to have been able to pick their brains and further my insights. I am thinking of Ming Ming Chiu, who never failed to answer why one and one is two (although I still think it is three after witnessing your effect on numbers and computations) and who taught me that data do not always need to be accompanied by numerous boxes of aspirins. Also I would like to thank Charlie Carroll, whose endless appetite for tables (and all the data that were served on them) proved crucial for stilling the hunger triggered by value chain envy. Also I would like to kindly acknowledge the rigorous reviewing done by the external review committee consisting of Hans Pennings, Arndt Sorge, and Arjen van Witteloostuijn. And then my supervisors, Nachoem and Filippo. Together they outfitted this slow train - that would otherwise surely have become a Siberian Express - with the necessary crew; one handling the coals and the other handling the breaks. It proved to be a very enjoyable ride with, of course, the occasional shrieks, hisses and letting out of steam. It seemed that, quite often, they would be waiting….beams down, lights flashing….but the train wasn't coming. The interaction with Nachoem, much resembled what John Haldane, an English geneticist (1892-1964), referred to as the four stages of acceptance. Year 1: "*this is* *worthless nonsense*", Year 2: "*this is an interesting, but perverse, point of view*" Year 3: "*this is true, but quite unimportant*" and Year 4: "*I always said so*". And everything of course everything had to be finished in Year 0: more coals on the fire! Filippo would slow me down, asking me whether my work was worth being chiseled in stone (sorry for letting you down with this paper version). Letting me in on his savvy and constantly pushing me into Exposureland, I soon realized that academia was hardly the romantic, insular world that it was propped to be, but it surely gained in play.

And the debt goes on…I would like to thank Christine Huntjens and my brother, Stefan, for taking on the role of viva witnesses (paranimfen) by keepin' me real as the end neared. You are surely the best that Ter Aar ever brought forth. And it is only fair that I acknowledge where it all started: at home at the dinner table where - as a conceited juvenile - I was often arguing feverishly, taking on the rest of the family against all odds. And it seemed that - when cornered and at loss for a better argument - I was always at the ready to become an opportunistic aficionado of Hegel and claiming, "*Um so schlimmer für die Tatsache*…[but I won't let the facts destroy my theory]". Thank you mom and dad for making me take this detour to prove my point; you are in my heart. And then Saskia….who has been by my side through many of the ups and downs of life as a starting academic: kokoro no naka ni.

Although my behavior over the last four years greatly resembled atomistic behavior on my part, I am quick to acknowledge with John Donne that "*no man is an island entire of itself*" and I would like to thank all my friends and family for their love and support.

I am very much looking forward to working with my new colleagues at the University of Melbourne, where I have been very hospitably welcomed into academic life 'down under'.

Melbourne, November 2005

Joeri Mol

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1 Introduction

This thesis seeks to explain how economic agents formulate strategy under conditions of uncertainty. Uncertainty is explored by investigating how ambiguity regarding exchange value affects economic behavior of both producers and consumers. Mitigating institutions are discerned that aim to produce a consensus of exchange value between consumers and producers. These institutions, dubbed 'selectors', are posited to crucially affect the strategy of competing firms. Patterns of non-random exchange are postulated to emerge when economic exchange takes place among consumers and specific producers that were successful in their strategy to co-opt the selectors. Although many of the employed concepts – exchange, uncertainty, value, and strategy - have been explored within the economic discipline, this thesis draws especially on the organizational and management literature to build a model for comprehending strategy under the condition of uncertainty regarding exchange value.

The defining objective for the economic discipline has been to comprehend economic exchange. Or put more succinctly: to understand how demand meets supply. This endeavor culminated in the conceptualization of the market as a metaphor for the interaction between suppliers and their prospective customers. The first comprehensive inquiry into the functioning of markets was proffered by Adam Smith in his seminal work 'The Wealth of Nations' (1776), in which he dwelled on the implications of the pursuit of self-interest by economic actors in an attempt to explain why markets cleared as if guided by an 'invisible hand'. Say (1803) foresaw a leading role for suppliers in the functioning of markets, arguing that demand was in essence a natural consequence of which goods and services are on offer.

Although more nuanced models of economic exchange have emerged, the stark polarization between suppliers on the one hand and customers on the other has remained one of the strongholds of the economic discipline. The coordinating mechanism was the pursuit of self-interest and accordingly no intervening agent was needed to ensure equilibrium. This implied that eventually demand would coincide with supply as the price-quantity combination produced by consumers seeking to maximize expected utility would equal that produced by suppliers seeking to maximize profit.

Yet for markets to clear under these conditions would imply perfect foresight on both parties, an assumption against which increasing criticism was voiced. Among the first to acknowledge that supply and demand could be in a state of disequilibrium as a result of information asymmetries was Walras (1874), who introduced the arbitrageur as the disembodied economic agent who would restore the clearance of markets by acting as a go-between for the suppliers and their customers. Albeit in different forms, the issue of imperfect information that was raised by Walras would form the breeding ground for a host of critiques targeting mainstream economics. One of the main critiques was directed against the conceptualization of uncertainty. In mainstream economic modeling uncertainty was not regarded as an obstacle for economic exchange to materialize. In the classic economic model it was simply assumed to be non-existent.[1]

Later models incorporated uncertainty but essentially as a stochastic entity. A crucial step forward was made by Knight (1921), who differentiated between stochastic risk and uncertainty. Whereas the former could be predicted, the latter was of a magnitude that could not be estimated by statistical inference.

Extending the issue of uncertainty would eventually give rise to the emergence of the discipline of organization science. Early organization science featured debates on the relationship between uncertainty and economic exchange as the driver behind economic organization. One of the first important insights was provided by Coase (1937) who stressed that economic exchange is costly because of the existence of uncertainty. Coase argued that there were two mechanisms that could coordinate economic exchange: the market and the organization. Coase revealed that the very existence of organizations is testimony to the fact that markets do not function as was predicted by mainstream economics and that organizations essentially constitute market failure. Uncertainty regarding economic exchange would determine which form of governance would be favored, an issue that was further developed in Williamson's (1975) transaction cost perspective.

Challenging the assumption of perfect information, Simon (1947) has shown that the way in which economic actors deal with uncertainty regarding economic exchange is crucial for understanding economic behavior. Stressing that economic agents were at best 'boundedly rational' when engaging in economic exchange, Simon paved the way for a new line of research investigating the origins and consequences of uncertainty that were produced by imperfect information. Building on Simon's endeavors, Cyert and March (1963) showed that economic exchange within organizations remained problematic due to conflicting interests of the individuals involved. At the intra-organizational level Pfeffer and Salancik (1978) have argued that firms attempt to buffer against exchange uncertainty by creating organizational slack preferably at the expense of their transacting partners. In doing so, the environment could be 'negotiated' in an attempt to offset the uncertainty stemming from the environment.

What became apparent from these strands of research was that under conditions of uncertainty economic actors were inclined to adopt different behavior than would have been sensible with the benefit of perfect foresight. Under conditions of uncertainty producers were left in the dark as to what to produce and consumers were left unsure about what would be the best buy. In order to offset the costs that would be incurred in a state of imperfect information, organizational scholars have stressed the importance of socialization among economic actors in an effort to further our understanding of economic behavior under conditions of uncertainty. In this regard it has been stressed that in the face of uncertainty organizations may start mimicking each other thereby giving in to isomorphic pressures (DiMaggio & Powell, 1983).[2]

Yet organizations are not the only actors in markets who may engage in mimicking behavior. When faced with uncertainty, consumers are likely to copy each other and display herding behavior as well. In fact consumers and producers share a significant source of uncertainty, namely the uncertainty regarding exchange value. It is this uncertainty that will be explored in this thesis. And it is this uncertainty that is posited to significantly impact strategic decisions at the firm level.[3]

For these purposes it may be instrumental to start with a discussion of the work of Darby and Karni (1973). They differentiated three classes of products depending on the moment at which the uncertainty regarding the value contained by the product could be alleviated. Products of which the value could be readily ascertained prior to the purchase were labeled 'search goods'; products of which the value became transparent only after consumption were named 'experience goods'; and products of which the value would remain ambiguous even after consumption were called 'credence goods'.

Akerlof (1970) showed that when economic value was difficult to ascertain by buyers there was ample room for suppliers to exploit this situation. This would incur costs of exchange not only for the consumers but also for bonafide suppliers and this situation would leave the market at a suboptimal state in the long run. Following earlier suggestions stemming from the sociological discipline (Simmel, 1955; Douglas, 1986) it is increasingly recognized within organization science that institutions are constructed to mitigate the adverse effects of uncertainty. Aldrich and Fiol (1994) have argued that in the formative years of an industry organizations need to establish 'cognitive' and 'socio-political' legitimacy to ensure that they are perceived as proper transaction partners. Leaving aside notable exceptions (see for instance the anomaly uncovered by Westphal, Gulati & Shortell, 1997), the view that organizational legitimacy can serve to secure organizational survival gained currency in the extant literature. Rao (1994) has shown that in the early years of the automotive industries the outcome of competitive processes were strongly linked to competitive car races which served to install consumer confidence in the market for automobiles.

An important contribution to the literature was the idea that institutions can be impersonated rather than being abstract entities. Hirsch (1972) discerned 'mediated markets' in which particular institutional actors gave explicit accounts of the value contained by the product in particular markets that served to guide prospective customers. Zuckerman (1999) developed the idea that being perceived as a legitimate competitor in the eyes of these intermediaries could serve to enhance organizational vitality. Rao (1998) has shown how the creation of consumer watchdog organizations significantly influenced competitive processes. Failure to comply with the criteria stipulated by such institutions could jeopardize a firm's longevity. Anand and Peterson (2000) have shown that an under-representation of a particular class of products by intermediaries led to erroneous decisions by competing organizations, corroborating that such intermediaries not only served to give guidance at the consumer level on what to buy but also to provide benchmarks on what to produce at the firm level.

To analyze how value is understood in competitive processes, this thesis will employ the conceptual framework of the selection system (Debackere, Clarysse, Wijnberg & Rappa, 1994; Wijnberg, 1995; Wijnberg & Gemser, 2000; Wijnberg, 2004; Priem, 2005). Selection systems describe competitive processes in terms of actors who are being selected (the selected) and actors who are doing the selecting (the selectors). In every industry a particular selection system can be identified. The selectors identify which products to take into consideration, and then proceed to evaluate these selected products on the basis of the criteria they deem relevant. The selectors are in effect mitigating the uncertainty regarding the value of products that exist on the part of (prospective) consumers.

While acknowledging that other forms of uncertainty can be discerned, this thesis asserts that it is the uncertainty regarding economic value that drives economic behavior. Uncertainty regarding economic value sets the parameters of economic exchange as it significantly impacts the way in which both suppliers as well as their prospective customers behave and interact. Thus for a fuller understanding of economic exchange an inquiry is needed, uncovering how economic value is determined in markets. In doing so, this thesis aims to elucidate how competitive processes at the industry level evolve, while fully recognizing how value is determined in markets. While making extensive use of the insights provided by the marketing discipline, consumer behavior will be considered only when deemed relevant for explaining competitive behavior at the industry level. As such, this thesis positions itself firmly within the organization science discipline.

Special attention is paid to how firms can further their interests by employing strategic management. Furthering arguments put forth by the Resource Based View (RBV) of the firm (Penrose, 1959; Wernerfelt, 1984; Barney, 1986) this thesis aims to show firms can strategically use their portfolio of resources in order to gain favorable terms of exchange. Consequently, the research design of this thesis has been geared to uncover how firms adapt their strategic behavior in response to the way in which uncertainty regarding exchange value is mitigated by institutions with special reference to selection systems. The concept of the selection system is further developed in this thesis and used as a frame of reference to analyze competitive processes. To this end I have - in close collaboration with my co-authors - undertaken four independent studies that capture the essence of how firms adjust their resource deployment in order to attain and sustain a competitive advantage in the face of uncertainty regarding the exchange value. The first study examines how the command over resources that can mitigate the effects of uncertainty regarding exchange value affects the means of appropriation in vertical exchange relationships. The second study investigates how the legitimacy of an organization may be contingent upon the extent to which it persuades relevant stakeholders to commit their resources, thereby aligning their interests with those of the focal organization and consequently enjoying more favorable terms of exchange. The third study endeavors to uncover how firms can attempt to undermine the effectiveness of resources held by their rivals that can mitigate the effects of uncertainty regarding exchange value. The fourth study presents a theoretical discussion of the conditions under which resources can bestow a firm with a competitive advantage given that exchange value may have various degrees of transparency. All four studies are discussed in greater detail below where an overview of the thesis is provided.

All three empirical studies are conducted within the realms of the music industry; the fourth study is a theoretical investigation. Although I posit that the results presented in this thesis have implications for industries in general, I have made a motivated choice to choose this particular research setting. Firstly, the cultural industries and the music industries in particular display a wealth of data that could be readily investigated for the purposes of this investigation. Vying for the favor of the relevant selector has been especially pronounced in the history of the music industry (Hirsch, 1969; Segrave, 1994). As will be elucidated at greater length in the chapters that follow, a firm's competitive status gained significantly when being acknowledged by gatekeepers, such as the present day DJs and VJs. Secondly, the music industry has until recently received surprisingly little attention from scholars of management and organization. This is all the more peculiar considering the fact that it currently constitutes a multibillion dollar industry. Additionally, in light of the importance of multi-media technology in today's economy in which the music industry features prominently, this reservation on the part of the academic community has become untenable. Thirdly, and not unimportantly, the choice for the music industry was a choice for an industry in which I had an intrinsic interest. I was keen and intrigued to study its multi-faceted (and often surprising) aspects. And although I do not have any direct personal involvement - and do not envy the people who join me in a karaoke session and are subsequently exposed to my occasional wailing - the music industry was a joy to study, coming close to the notion of 'sample of convenience'.

In meeting its objectives this thesis was structured as follows. The first study (Chapter 2, which I co-authored with Charlie Carroll and Nachoem Wijnberg) investigates the value system, which is regarded as the sum of all economic exchange relationships that make up an industry. This allows an analysis of how value is added at every stage and subsequently exchanged from industry to industry, finally culminating in the final product. Stressing that the notion of value is contentious, this study focuses on how each industry that participates in the creation of the final product makes an appraisal of its own contribution as well as the contribution of the neighboring industries with which it entertains an exchange relationship. Contending that not necessarily all of the value may be appropriated by the one who created it, the concepts of value creation, value capture, and value protection are employed to explain new entry and vertical integration. It is posited that if, at one stage of the value system, the share of value captured is disproportionately higher than the share of value created, 'value chain envy' will ensue. This value chain envy will result in new entry and vertical integration towards that desirable stage provided that the means of value protection available to the incumbents can be overcome. Within the popular music industries, the value created at the stage of music publishing has diminished steadily over the course of the 20th century, but the value captured has remained high. This is posited to have triggered value chain envy both inside and outside of the value system. In order to further investigate these issues a structured questionnaire was constructed and subsequently administered to 146 companies that were registered with the Dutch Chambers of Commerce. Especially in the light of the complex issues that were the focus of this line of research, an explicit choice was made for a survey of this nature. Survey methods are deemed to allow a more fine-grained investigation yielding data that is more detailed and insightful than by relying on secondary data (McGrath, 1981). The data presented in this chapter show high levels of vertical integration into that desirable stage originating primarily from the stages upstream in the value system, while the level of new entry has been comparatively low. At the same time, the data indicate that the recent introduction of new information communication technologies (ICT) have not significantly affected the levels of new entry and vertical integration into music publishing.

The third chapter (which I co-authored with Ming Ming Chiu and Nachoem Wijnberg) investigates how various types of legitimacy affect the performance of 215 new entries, stemming from 131 firms active in the Dutch music industries. The basic tenet of this paper is that the performance of organizations is to a large extent determined by the legitimacy it enjoys in the eyes of the internal and external constituencies. As such, legitimacy is viewed to mitigate the uncertainty on the part of the relevant stakeholders by instilling a certain level of confidence that the new venture is legitimate, proper and appropriate. Arguing that at the outset of a new venture the entrepreneur lacks a track record to showcase legitimacy of its *actions*, other markers of legitimacy are used instead. Therefore we posit that previously assumed entrepreneurial roles and entrepreneurial objectives are important for signaling the new venture's legitimacy in its formative years. Logit/Probit/Gompit regressions, path analyses and structural equation modeling of structured questionnaire data indicate that performance, measured as profit and turnover growth, are linked to past entrepreneurial roles and entrepreneurial objectives. The findings give rise to notion that upon new entry, not an organization's actions but its past (roles assumed by the entrepreneur) as well as its future (entrepreneurial objectives) function as adequate markers for legitimacy.

Building on a well-documented case in the history of the music industry, the fourth chapter (which I co-authored with Nachoem Wijnberg) discusses how the selection system can be used to describe the interaction between firms that are in competition and actors that are in the position to affect this competitive process by asserting the value of rival products. As explained before, the latter are called the 'selectors' and the first are the 'selected' in a particular selection system. For a comprehensive understanding of how the value of competing products is determined, it is important to realize that selectors themselves can compete with each other. This allows for the possibility of mutually beneficial alliances between particular groups of firms and particular groups of selectors to be forged aimed at influencing the respective competitive processes that both are involved in. If such alliances occur it can be a sensible strategy to make an attempt to undermine the influence of the selectors allied with one's competitors. The main purpose of the chapter is to better understand the strategic option of actively engaging in the competitive process between selectors. Attention will be paid to the relationships between the viability of this particular strategic option, the competitive positions of the actors pursuing it and the ways in which the perception of such involvement affects the value of the goods and services in question. In this chapter authenticity is operationalized as a product-characteristic, which varies in importance from product to product. Authenticity as a product characteristic is deemed to be especially important in the cultural industries, because the consumption of a cultural product often serves to establish or maintain the social-psychological identity of its consumer. Just like any other product-characteristic, authenticity is evaluated by the relevant selectors, who determine the value of products in competitive processes. One outstanding feature of authenticity as a product-characteristic is that, in order to determine authenticity, the selectors themselves have to be acknowledged as authentic as well. The empirical part of this chapter shows how in the 1950s the smaller independent record companies were relatively successful by allying themselves with the DJs of local radio stations, who proved to be the dominant selectors of the period. This heralded a slump in sales for the major record companies. The major record companies managed to re-establish their competitive advantage by discrediting the authenticity of these DJs, as selectors of music, by publicly linking these DJs to commercial bribery by means of the congressional hearings.

The fifth chapter (which I co-authored with Nachoem Wijnberg) presents a theoretical discussion of the Resource Based View (RBV) of the firm building on the increasingly voiced criticism that it does not adequately address the relationship between resources and value. This chapter proposes a trichotomy of criteria – 'ante rem', 'in re', and 'post rem' - that allows resources to be evaluated on their functional role in competitive processes. This approach has important implications for the extent of specialization among competing firms, the bundling and unbundling of resources and the boundaries of the firm.

In summary, this thesis sports a collection of essays exploring how uncertainty regarding value affects how economic exchange materializes. Acknowledging the importance of economic institutions that mitigate the uncertainty regarding value, this thesis posits that economic exchange typically occurs in a non-random fashion, thereby challenging the mainstream economic premise that exchange takes place among mutually anonymous actors. Recognizing that the demand side has a pronounced preference for products whose value is ascertained by mitigating institutions, it is posited that the supply side engages in strategic behavior vis-à-vis these institutions in order to favorably influence the outcome of their competitive process.

2 Value Chain Envy: Explaining New Entry and Vertical Integration in Popular Music[4]

2.1 Introduction

This paper aims to investigate the origins and the consequences of profit differentials among stages within a single value system (Porter, 1985). By applying the concepts of value creation, value capture and value protection (Foss, 2003) (Foss & Foss, 2002) to the vertical setting of a value system, the occurrence and viability of vertical integration and new entry are explained.

So far, the origins of profit differentials have been investigated within two streams of literature. The strategic management literature endeavors to explain profit differentials among firms, while the industrial organization literature attempts to explain those differentials among industries. Within the strategic management literature, profit differentials among firms have been linked to the ownership of particular resources (Wernerfelt, 1984; Barney, 1986; Montgomery & Wernerfelt, 1988; Dierickx & Cool, 1989; Conner, 1991; Peteraf, 1993), and capabilities (Nelson & Winter, 1982; Amit & Schoemaker, 1993; Teece, Pisano & Shuen, 1997) that bestow a firm with the ability to create and sustain a competitive advantage vis-à-vis its rivals. The industrial organization literature, on the other hand, links profit differentials among industries to the existence of barriers to entry (Bain, 1956) or mobility (Caves & Porter, 1977) that enable incumbent firms in particular industries or strategic groups to enjoy profits without fear of attracting new entrants.

While both approaches serve to better understand the origins of profit differentials, they have thus far largely neglected the vertical dimension of the value system in which a particular industry is embedded. In contrast, the present paper emphasizes the vertical dimension, considering horizontal competition in the context of vertical relations. We use insights from both theoretical approaches mentioned above, as well as the conceptual framework of the selection system (Wijnberg, 1995; Wijnberg & Gemser, 2000). Selection systems seem a particularly useful tool for analysis as they provide a shorthand description of how value is created in competitive processes. The basic premise is that rival firms compete to create value for the final customers and in doing so hope to become chosen by the relevant selectors. As such, the selectors can greatly influence the outcome of competitive processes.

The central proposition advanced in this paper is that the desirability of being located at a particular stage of the value system is determined by the ratio between captured and created value at that particular stage. Firms at each stage create a share of the value of the final product. At the same time, these firms are able to capture a share of the exchange value (i.e., the price that has been paid for the final product). If firms at a given stage tend to capture more value than they create (i.e., the ratio between captured and created value is greater than 1 for that stage), then actors in other stages of the value system could experience *value chain envy* and hence be motivated to vertically integrate into that desirable stage. Actors outside of the value system can also experience value chain envy; this will trigger new entry into the value system. The feasibility of both these strategic responses, however, depends on how well value is protected at the desirable stage.

This approach looks at vertical integration and new entry as essentially equivalent phenomena: the initiation of a new business activity, be it from within or from outside the value system. Moreover, it overcomes a number of problems accompanying previous endeavors. One contribution of this approach is that vertical integration is not viewed from a single-firm perspective, as is standard practice especially within transaction costs economics, but from the perspective of the overall value system. A single-firm perspective on vertical integration becomes problematic as it assumes a ceteris paribus clause to hold for the remainder of the value system, thereby disregarding the fact that competing firms at other stages might be just as keen to realize similar goals. This could potentially thwart a given firm's attempts at vertical integration. This ceteris paribus clause is implicitly incorporated, whether looking at vertical integration as a response to uncertainty (Thompson, 1967; Pfeffer & Salancik, 1978), communication costs (Casson & Wadeson, 1998; Wadeson, 1999), or hold-up problems (Klein, Crawford & Alchian, 1978; Williamson, 1975; Williamson, 1985).

A second contribution pertains to the literature on new entry, as it rarely investigated how barriers to entry differed between the various stages of value system of which an industry forms a part. As such, the approach presented here might provide a more encompassing theory of both the origins and consequences of profit differentials within value systems, thereby complementing the existing explanations of vertical integration and new entry (Winter, 1984).

2.2 Theory

2.2.1 Value Creation, Protection & Capture

Within the strategic management literature, the concept of value plays a pivotal role in the study of a sustainable competitive advantage. To explain profit differentials between firms one needs to take into account not only the creation of value but also the available means of appropriating this value in a competitive context (Zajac & Olsen, 1993). In this regard the distinction made by Bowman and Ambrosini (2000) between *value creation* and *value capture* seems useful. They define value creation as the contribution to the utility of the final good to end users and value capture as the difference between revenue and cost retained by the firm. For the purposes of the present paper, however, revenue should be understood as the price paid by the buyer downstream, while cost is equated to the price paid to suppliers upstream. Foss (2003) noted that in addition to creating and capturing value, firms also deploy resources to protect themselves against the threat of competitive imitation (*value protection*).

The distinction between the creation, capture and the protection of value seems useful for a closer examination of vertical relationships that exist within the value system. Firms are generally regarded to compete with firms occupying the same stage(s) in the value system, and success in this dimension is a prerequisite for profit. However, as actual transactions take place with firms upstream and firms downstream in the value system, it is this vertical dimension along which a firm's profits are actually generated. Thus, firms can be considered as being engaged in competition along two axes: horizontally, by preventing competitive imitation of this value creating activity through value protection; and vertically, by realizing profits from this value creating activity through value capture.

In the literature, value creation is usually not treated as a contentious issue. Standard textbooks equate the value of a product with the economic value to consumers, defining how much a consumer is willing to pay for the final product (Kotler, 2000). Yet how much a consumer is willing to pay is not exogenous to the competitive processes that firms are involved in, but can be said to be determined by the set of relevant selectors (Wijnberg & Gemser, 2000). In any given industry, a particular selection system can be discerned describing how the selected (rival) firms are competing with each other to satisfy the preferences that have been set for a particular product by the relevant selectors. In a *market selection system*, the producers are selected directly by the consumers, but other selection systems are possible (Wijnberg & Gemser, 2000). The producers (rather than consumers) function as selectors in a *peer selection system*. In an *expert selection system*, a third party (neither the consumer nor the producer) is given the task of assessing value using specialized knowledge and/or distinctive abilities. An example of *expert selection* would be physicians prescribing a particular pharmaceutical product to their patient. The physicians are neither the consumers nor the producers of the medicine, yet they are the relevant selectors because they determine the use value of the product. Hence, pharmaceutical firms are vying to win the favor of these selectors.

Within a vertical setting, it can be said that the value system is basically a series of vertically aligned (sub)markets, each with its respective set of selectors. The ones judging the final product are the perhaps the dominant set of selectors within the value system. The selectors in the (sub)markets upstream attribute value to resources partially based on the anticipated contribution that they will make to the overall value of the final product. However, selectors at each stage might additionally have unique sets of criteria for assessing created value, and they might try to influence the selectors that determine the value of the final product. As will become obvious from the discussion of the music industries, particular selectors play a crucial role in determining the value of the final product of the value system of the music industries and hence a crucial role in determining the outcome of the dynamics of the value system.

Protecting value is mainly a horizontal activity as it is concerned with preventing competitive imitation of (potential) competitors. Horizontal competition takes place among firms with similar value chains and operating within the same stage(s) of the value system. As has been emphasized by both the advocates of the resource based view (Wernerfelt, 1984; Barney, 1986; Montgomery & Wernerfelt, 1988; Dierickx & Cool, 1989; Conner, 1991; Peteraf, 1993) and the authors supportive of the dynamic capability perspective (Nelson &

Winter, 1982; Amit & Schoemaker, 1993; Teece, Pisano & Shuen, 1997; Montgomery & Wernerfelt, 1988; Dierickx & Cool, 1989; Conner, 1991; Peteraf, 1993), firms can only maintain superior performance by warding off competitive imitation (Teece, Pisano & Shuen, 1997; Amit & Schoemaker, 1993). Several means of value protection have been discussed in the literature that have proven to be effective to prevent competitive imitation. They can either be formal, taking the shape of institutionalized monopolies such as patents (Mansfield, Schwartz & Wagner, 1981; Levin, Klevorick, Nelson & Winter, 1987; Cohen, Nelson & Walsh, 2000) and copyrights (Towse, 2000) or be non-formal, such as causal ambiguity (Lippman & Rumelt, 1982; Reed & DeFillippi, 1990), isolating mechanisms (Rumelt, 1984), the threat of loss of reputational capital (Gemser & Wijnberg, 2001) or economies of scale (Levy, 1985; Mankiw & Whinston, 1986).

Capturing value - like creating value - is mainly associated with the vertical dimension of the value system. It depends on the bargaining power vis-à-vis neighboring stages: buyers downstream and suppliers upstream (Priem, 2001). The amount of value being captured at the respective stages of the value system is the outcome of the competitive processes taking place among firms with dissimilar value chains located at different stages of the value system. Therefore profits are ultimately made vertically and not horizontally, as the product passes through the sequence of supplier-buyer relationships that make up the value system.

Teece (1986) was among the first to present a more integral approach to the relationship between creation, capture and protection of value within a vertical setting, albeit implicitly. He described how inventors, although being the owners of patents, were unable to market their products successfully because the competition controlled the complementary assets in the areas of marketing and distribution that were required to commercialize the product. The full exploitation of the invention could only be realized if the innovators were allowed enough time to develop those complementary assets further downstream. Teece notes, however, that patents as a means of protection may only ward off competitive imitation for a limited period of time, as the competition can eventually innovate their way around the original invention. One way to resolve this problem quickly is through the acquisition of a firm that holds those complementary assets. However, acquisition is not always a realistic option - especially for small and medium-sized companies (SMEs). It might be more feasible to form alliances with (rather than taking ownership of) firms holding the complementary assets (Shane, 2001). As will be discussed further on, seeking alliances has been the strategy of choice for the suppliers of creative inputs in the music industries.

2.2.2 Value Chain Envy

Teece's (1986) conceptualization of complementary assets provides some useful insights for analyzing the vertical relationships among firms. However, its application within the current context remains problematic. Firstly, the complementary assets as used in Teece's analysis are defined in an ambiguous fashion and seem to be employed alternately to describe value creation, protection, and capture. Initially, Teece (1986, 1992) defines complementary assets as marketing and distribution channels, which basically refer to value creating activities at stages further downstream. Further on, however, Teece (1986: 290) used complementary assets as if they were means of value protection, providing barriers to imitation by (potential) rivals of the innovator. In the same 1986 paper (see, for instance, p.295, p.299), the concept of complementary assets is employed to denote value capture when he concludes that the initial inventors may not be able to enjoy the returns of an invention if they lack the necessary complementary assets. Secondly, although Teece did discuss value creation, protection and capture in a vertical context, the focus of his analysis remained on the horizontal competition among firms with similar value chains (i.e. residing at the same stages within the value system). When the complementary assets in other stages are relevant, then Teece holds the focus on the (horizontal) competitive battle and argues that that battle will be won by the firm that is the first to lay its hands on those complementary assets. Moreover, Teece also takes a single firm perspective that does not take into account the perspectives of the firms elsewhere in the value system. A niche associated with a valuable complementary resource might attract the interest of firms from both ends of the value system. Battles among a set of rivals upstream might run headlong into the battles raging among a separate set of rivals downstream as players both above and below the attractive niche struggle to enact conflicting views of the structure of the value system.

In contrast to Teece's approach, the struggle to capture value is portrayed in this paper as a constant 'tug-of-war' among vertically related actors within the value system. Just as industries differ with respect to the availability of the means to capture value (Cockburn & Griliches, 1988), the various individual stages in the value system can, and usually will, differ with respect to the availability and efficacy of the means to capture value. Figure 1 illustrates value creation and value capture at the different stages of a hypothetical value system involving 'Product X'. There are four stages in this hypothetical value system: the suppliers of primary input, the producers, the distributors, and the retailers.

Value creation in this context relates to the distinct value creating activities as the product passes through the different stages at which value is added, eventually accumulating into the value held by the final product, as perceived by the final set of selectors. As such, each stage will contribute - in the eyes of the final selectors - a particular percentage of the created value contained by the final product. Graphically, in Figure 1 the length of the gray bar represents the share of the total value that was created at that stage.

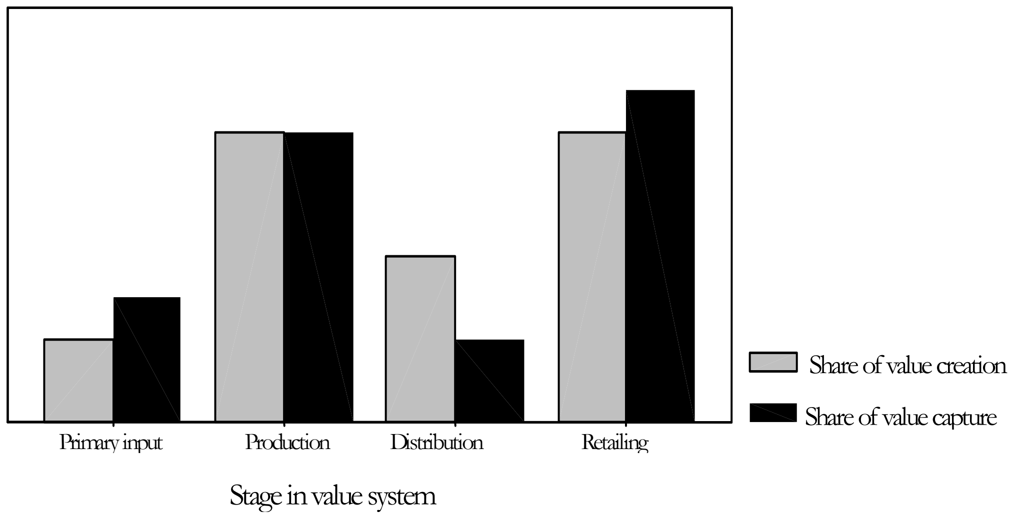


Figure 1: Shares of value creation and value capture in a value system

Capturing value from 'Product X' depends on the relative bargaining power a firm enjoys vis-à-vis firms at neighboring stages: the buyers downstream and the suppliers upstream. As such, capturing value is the outcome of the competitive processes taking place among firms with dissimilar value chains. As mentioned earlier, profits are ultimately made vertically, not horizontally, as the product passes through the sequence of supplier-buyer relationships that make up the value system. Again, the amount of value capture in the value system as a whole is expected to equal to the final exchange value (the price paid for the final product). The black bars representing the percentage of that total value that is captured within each stage.

The value system can be considered to be in equilibrium when at all stages the ratio capture/creation = 1. However, as firms strive for a maximization of their share of value capture, they create a 'tug of war' among the different stages within the value system. Once firms residing at particular stages of the value system, such as the retailers of 'Product X' in our hypothetical example, are able to skew the proportion between value captured and value created at their stage in their favor, the value system will be out of equilibrium. This disequilibrium could in turn give rise to *value chain envy*. That is, actors in other stages might envy and/or resent those who are able to capture a disproportionately large share of the exchange value relative to the share of the use value that they create.

The potential new entrants (actors currently outside of the value system) presumably would also show a preference for stages in which the share of value that can be captured is greater than the share of value that must be created. However, the overall desirability and feasibility of both vertical integration and new entry will be greatly influenced by the means of value protection employed by the incumbents of those stages. Notably, value protection only becomes relevant after the relationship between value creation and value capture has resulted in making a stage desirable. The availability of strong means of value protection per se says little about the attractiveness of a stage.

Proposition 1: *If, at one or more stages of the value system, the share of value captured is disproportionately higher than the share of value created, then the frequency of new entry and vertical integration into these stages will be high relative to the other stages, provided that the means of value protection available to the incumbents can be overcome.*

As explained above, the value system is said to be out of equilibrium when one or more stages have a ratio of value capture to value creation that is greater than 1. However, a value system that is out of equilibrium will always contain one or more stages where the ratio between value capture and value creation is less than 1. These stages are inhabited by actors who are losing the 'tug-of-war'; some of the value that they have created is captured elsewhere in the value system. In Figure 1, the distributors represent such a stage. Presumably, value chain envy is strongest among the actors at this stage since they are not able to recoup the value they have created. Consequently, the actors at this stage would have the greatest propensity to vertically integrate. Of course, the means of value protection at the more desirable stages would influence both the number and the success rate of those vertical integration attempts. In Figure 1, the distributors might want to act on their value chain envy by vertically integrating into retailing. This leads to the second proposition.

Proposition 2: *The actors in stages at which the share of value captured is lower than the share of value created will have the greatest propensity to vertically integrate into other stages provided they can overcome the relevant means of value protection.*

Note that if firms residing at a certain stage are systematically unable to capture the share of value that is equivalent to the share they create in the eyes of final selectors, it does not necessarily imply loss making – even in the long run. A price that is less than just, in terms of the ratio between value capture and value creation, can still very well be above break-even. Therefore, the distributors of product X may very well be profitable. The reverse can also hold: capturing more value than is created at a particular stage is not a guarantee to make profit, it only allows a firm a greater potential, compared to firms at less advantageous stages, of making a profit. At the same time, it certainly is true that some firms at every stage must make a profit for the value system as a whole to continue in the existing configuration.

2.3 The Recorded Music Industries

While these propositions are applicable to any value system, the music industries provide a particularly attractive setting for studying value creation and appropriation. Crossland and Smith (2002) have analyzed how value is created in the fine arts industry. Miller and Shamsie (1996) have investigated how value is captured in the movie industry. Gemser and Wijnberg (2001) have looked at issues of value protection in the design industry. Although the literature on the music industries is voluminous, and both value capture and value protection have received much scholarly attention (Towse, 2000),(Caves, 2000) no systematic analysis has been undertaken to study the implications of the relationships between value creation, value capture and value protection for the dynamics of the value system as a whole.

To fully understand the dynamics of this value system, an historical perspective is necessary. Notably, two waves of technical innovations induced Schumpeterian shocks that fundamentally changed the way business was done in the value system: the advent of analog recordings and the subsequent advent of digital recordings. These innovations therefore provide meaningful transition points, separating three distinct historical phases in the evolution of this value system.

2.3.1 Phase 1: Prior to Recorded Music

Prior to the advent of recorded music, popular melodies were purchased in the form of published sheet music so that they could be reproduced in other theaters or at home (Caves, 2000). During this era, composers were typically contracted by music publishers, who took on the activities of printing and distributing the sheet music to the retailing industry. More importantly, the music publishers endeavored to make the composition a commercial success through marketing activities. The most effective way to do so was by convincing popular singers or bandleaders to play their songs, because the average consumer would follow their lead. In effect, popular singers and bandleaders functioned as the relevant selectors, determining the value of a particular song (Segrave, 1994). As such, the value system in this area basically consisted of five distinct value-creating activities: composing, writing lyrics, performing, music publishing, and retailing.

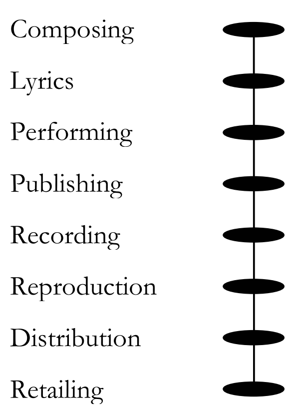
The main form of value protection for music publishers was based on economies of scale. These had proven to be an effective means of warding off competitive imitation since as early as the 18th century (Scherer, 2001). As a consequence, composers could generally not invade the stage of music publishing. Although copyright was already installed as a legal institution and consequently provided ample value protection to the composer, it did little in terms of capturing value. Rather than risking a song to be left idle, the composers generally traded part of their entitled copyright royalties in order to get a song published (Caves, 2000). Thus rather than protecting the interests of the composers and the lyricists, copyright proved to be a useful tool for music publishers to prevent competitive imitation by their rivals (Segrave, 1994).

With respect to value capture, most composers were receiving a meager salary. The plight of lyricists in those days was even worse, as they were hardly remunerated for their efforts (Segrave, 1994). The publishers, because of their relationships with the relevant selectors, were the ones who could make a song successful and also the ones who captured most of the financial rewards. When the music publishers were not 'adequately' rewarded, the chances of a song becoming a hit single were greatly diminished (Caves, 2000). Even when the composers and the lyricists came to enjoy more economic independence during the 1920s and 1930s, music publishers still retained substantial bargaining power. The revenue derived from copyrights was equally divided between the publisher and the composer/lyricist. This 50-50 split regarding value capture became institutionalized as this essentially fixed division of royalties was enforced by newly founded organizations such as ASCAP (American Society of Composers, Authors, and Publishers) (Caves, 2000).

2.3.2 Phase 2a: Recorded Music

The arrival of analog recording technology significantly changed the way in which music was produced and consumed. It created a market for recorded music that partly replaced the conventional demand for sheet music and live performances. Moreover, manufacturing multiple copies of a sound recording required additional value creating activities: the recording and reproduction of sound. Existing value-creating activities were greatly affected as well; the methods of publishing, distribution, marketing, and retailing had to be substantially revised to meet the demands of the market for sound recordings.

Figure 2: The Value System of Recorded Music



The value system that emerged is depicted in Figure 2. Each stage denotes a particular value creating activity. Composers create the musical work and the lyricists write the text. The performing artists play the music 'live' in concert or in a recording studio. The music publishers publish sheet music and are responsible for the collection and administration of royalties derived from the musical work. The record companies are responsible for the sound recording, reproduction, and distribution of the musical work in the form of records, compact discs, etc. Finally the retailing sector sells the sheet music or sound recording to the final consumer[5].

A development that ran parallel to the introduction of recording technology was the emergence of a broadcasting system. After initial skepticism, the record companies embraced radio as the preferred outlet for their marketing endeavors (Caves, 2000). Consequently, the popular bandleaders were largely replaced by radio DJs (and later VJs) as the relevant selectors, determining the value of the final product. Getting a song on the air proved vital for realizing record sales, and accordingly the record companies competed for the favor of the DJ (Peterson & Berger, 1975).

In terms of value protection, the major record companies enjoyed vast economies of scale in the areas of recording, reproduction, and distribution (Burnett, 1996; Kretschmer, Klimis & Choi, 1999; Caves, 2000). This limited the number of players that could effectively carry out these activities (Burke, 1997). While the so-called independent record companies did exist, they found it necessary to form strategic alliances with major record companies in order to release a song internationally (Lopes, 1992). These alliances provided the majors with short-term financial benefits. Perhaps more importantly, the alliances allowed the majors to monitor the innovative behavior of the independent record companies (Hesmondhalgh, 1996) and consequently make better-informed decisions regarding the takeover of these smaller competitors (Hellman, 1983).

The economies of scale in recording, reproduction, and distribution also enabled the majors to successfully enter publishing. Since the artists depended on the record companies for these scale advantages to make their copyright economically valuable, they had to accept deals that allowed the record companies to exploit the artists' copyrights. Ironically, copyrights became a means of value protection at a different stage of the value system than was originally intended (Kretschmer, Klimis & Wallis, 1999).

In terms of value capture, it became indispensable to have closely knit relationships with the broadcasters--the relevant selectors in the era of recorded music. Since thousands of new songs are released every week, DJs were not able to personally evaluate each and every one when developing their weekly play lists (Vogel, 1998). Hence, DJs generally created a shortlist based on the 'advice' of the record companies. The record companies would plug certain songs to get them played and if this 'advice' was accompanied by monetary (or other) incentives, the chance of getting a song on the air was greatly enhanced (Peterson & Berger, 1975). The major record companies used their strong relationships with the broadcasting industry to skew the distribution of profits in their favor (Peterson & Berger, 1975; Peterson & Berger, 1996; Rothenbuhler & Dimmick, 1982; Burnett, 1992; Alexander, 1996; Burnett, 1996). This was a good investment for the record companies since airtime generally had a positive influence on sales.

The major recording companies could influence the relevant selectors in the broadcast industry and they also used economies of scale to limit the number of rivals at that stage. This control of the downstream end of the value system gave the majors enormous bargaining power vis-à-vis the creative talent upstream in the value system. Vogel (1998) referred to this as a 'dealmaker's delight'. If composers and musicians wanted to get their music heard, they had to go through the record companies. Record companies negotiated long-term contracts with musicians in the early stages of their careers, preventing them or rival record companies from capturing the rewards of stardom if the musicians eventually became commercially successful (Kretschmer, Klimis & Choi, 1999; Cameron & Collins, 1997).

2.3.3 Phase 2b: Music-Publishing and Value Chain Envy

Although music publishers traditionally made a considerable contribution to the success of a song, their role has greatly diminished after the introduction of recording technologies in the 1960s. Since that time, the functions of marketing and promotion have shifted from the publishers to the record companies (Negus, 1992). The publisher's role was further diminished by the cultural changes associated with rock music. Music publishers had traditionally provided performers with a musical repertoire developed by contracted composers (Caves, 2000). However, the reputation of rock stars increasingly became based on their ability to voice their own feelings and beliefs (Frith, 1996). This led to the prevalence of the singer-songwriter; performers became self-sufficient in this regard by composing their own material. This trend towards vertical integration in the artistic end of the value system caused further complications for music publishers. Singer-songwriters also were less willing to let publishers sell their songs to other performers because those performers were rivals for the singer as well as being customers of the songwriter (Caves, 2000). Music publishers increasingly functioned as brokers between the musicians and the recording companies instead of between the composers and the performers (see Figure 2). Eventually, the role of music publishers was reduced to just the administration and collection of copyright royalties (Caves, 2000).

Yet another impact of recording technology was that musical composition shifted from creating a melody to creating a 'sound' (Frith, 1996). An effective reproduction came to depend on a variety of new creative capabilities, such as: editing, engineering/mixing, arranging and producing (Denisoff, 1975; Frith, 1996;

Becker, 1982). Consequently, sales of sheet music declined, as sheet music was no longer sufficient for reproducing a song. To make matters worse, it was no longer even necessary to create the sheet music. In 1976, a new copyright act was passed in the United States no longer requiring a song to be fixed in sheet music; a song's sound recording became sufficient to create copyright protection (Caves, 2000).

Notably, while the share of value creation from music publishers dramatically declined, their share of value capture remained at the level that was institutionalized by rights clearance organizations such as ASCAP in the 1920s: 50 percent of the composer's royalty income (Vogel, 1998; Butler, 2000; Caves, 2000). Moreover, as the recorded music industries became increasingly reliant on the exploitation of music not as a commodity but as a right (Frith, 1987), the intellectual property rights connected to music publishing became increasingly lucrative, generating over 3 billion US$ worldwide in 1990 (Burnett, 1996). Copyright as a means of value protection has been extended well beyond its original use of preventing sheet music to be copied. Whenever a song is played on the radio, included in a movie or documentary, or reproduced as a record, the music publisher derives royalty income from the copyrights. Thus, the stage of music publishing has become an obvious target for value chain envy in the value system: its institutionalized share of value captured is disproportionately high relative to its contemporary share of value creation.

Yet, as publishing rights entitled the publisher to a percentage income from the royalties of a song, little income was generated where sales volumes were small. Scale was still essential for profitability. This meant that scale also remained as a means of value protection. However, it was difficult to achieve scale advantages solely in publishing. Economies of scope became increasingly relevant, and publishing increasingly became linked with other stages in the value system in order to achieve an effective means of value protection.

2.3.4 Phase 2c: Vertical Integration and New Entry in Music Publishing

As a consequence of the increased desirability of music publishing, other actors in the value system were tempted to vertically integrate into this stage. In particular, the major record companies stepped up their acquisition of successful publishing houses (Huygens, 1999). These majors could do so because they could achieve the economies of scale, especially in reproduction and distribution, which were necessary in music publishing. Backward integration by the major recording companies into the music-publishing sector has been remarkable over the last 15 years: Sony-CBS bought Blackrock (1987), Big Tree International (1989), and Conway Twitty (1990)[6]; BMG-RCA purchased Doubleday (1986), Dell (1986), and Lodge Hall/Milsap (1989); EMI took control over SBK Entertainment (1989), Combine Music (1989), and Filmtrax (1990); MCA obtained Mayday Mediarts Music (1989); PolyGram acquired Musiplex (1987), Lawrence Welk Music Group (1988), and Sweden Music AB/Polar Music (1989), Warner Incorporated Chappell Music Group (1987) and Mighty Tree Music Group (1990). As a result of all this M&A activity, the music-publishing departments of the major record companies could offer recording artists a comprehensive contract that included all rights relating to a musical work (Wallis & Malm, 1984).

The exploitation of a new business activity in the music-publishing sector seemed to be within reach of the entrepreneurial musician as well; the financial endowments needed for operating as a music publisher were small (Burnett, 1996). However, it was unappealing for musicians to start their own music-publishing company, because the economies of scale in the areas of reproduction and distribution were essential for a song to become commercially successful (Burnett, 1996; Kretschmer, Klimis & Choi, 1999; Caves, 2000). Indeed, since the major record companies were now operating their own music-publishing departments, their bargaining position vis-à-vis the musicians was even stronger. As a consequence the musicians were left with little incentive to integrate into music publishing as vertical integration would not yield extra means to capture value: the potential gain in value capture would be appropriated by the major record companies in the course of negotiating the record contracts because they controlled crucial assets further downstream. The only musicians that could effectively start their own music-publishing company were the established artists (Sanjek & Sanjek, 1991; Negus, 1992). Because of their popularity, musicians like George Michael and Prince enjoyed a leveraged bargaining position with regard to the relevant selectors (the broadcasting industry) and could consequently free themselves from the dependence on the major record companies (Kretschmer, Klimis & Choi, 1999). In terms of value capture, their popularity gave them leverage comparable to that of the major record companies (Bradlow & Fader, 2001), and instead of the usual 50/50 split they could command a 20/80 division (Vogel, 1998) or even a 15/85 division (Negus, 1992) in their favor. The increase in bargaining power of these musicians left some independent music publishers with a very small margin indeed, as the operating costs could amount to as much as 12 percent (Vogel, 1998). Consequently, independent publishing firms were forced to take a more entrepreneurial posture by contracting less successful composers. Although this strategy had the potential to generate higher premiums, these publishing firms also had to face increased risks, as most of the contracted composers would never attain breakeven sales, let alone commercial success. Further, if successful, these independent firms became the M&A target for the major record companies. Since the likelihood of commercial success was small, vertical integration by entrepreneurial musicians as well as new entry by newcomers remained limited.

2.3.5 Phase 3: Digitized Music

The digitization of the music industry started in the early 1980s when Sony and Philips teamed up to commercialize the compact disc. After overcoming their initial skepticism, the recording firms became convinced that the commercialization of the compact disc could be a potential goldmine (Nathan, 1999). However, the introduction of digitalization in several key technologies (MP3, home recording technologies, and the Internet) undermined the advantages that could be derived from the economies of scale in the areas of recording, reproduction, and distribution. These were the areas in which the major record companies had traditionally possessed a competitive advantage.

Traditionally, when artists were contracted by one of the majors, they were placed in the hands of producers and arrangers who 'guided' these artists. Often the label's commercial objectives clashed with the artist's sense of creative freedom. If that didn't make the artists mad enough, the labels' producers and arrangers subsequently claimed a percentage of the royalties as compensation for their input.

By the mid-1990s, personal computers became powerful enough to record music in a digital format. At the same time, digital recording software was developed, enabling musicians to move up from making poor quality tape recordings to making high quality digital recordings. This technology significantly reduced recording costs. Having access to sequencing and audio recording software at home also enabled musicians and composers to exert greater artistic control over their work. They could 'master' a composition without the interference of a major label. A major label was no longer necessary for product development.

The introduction of the MP3 format also had a dramatic effect on the value system. The MP3 format was invented in 1989 by the German Fraunhofer Institute and was standardized by 1991. It significantly reduced requirements for data storage and data transmission by compressing the original recording to 5-10% of its original size. MP3 technology therefore played a pivotal role in driving down the costs of the reproduction and the distribution of a musical work. In combination with the opportunities offered by the Internet, MP3 technology laid the foundation for the success of peer-to-peer file sharing networks such as Napster (Alexander, 2002). Albeit largely an illegal activity, consumers could now perform the value creating activities of reproduction and distribution themselves (Alexander, 2002). As a result, the subjective use-value that the end-consumer placed on music reproduced and distributed by others (e.g. the record companies) dropped dramatically (Gallaway & Kinnear, 2001).

This turn of events indicated that the efficacy of economies of scale and copyright as means of value protection had been drastically reduced. Hence other agents inside and outside of the value system were now able to engage in competitive imitation in stages that they previously could not enter. This had three far-reaching implications for the competitive environment, especially with regard to the stages of recording, reproduction, and distribution. Firstly, the marginal costs involved in the reproduction and distribution of a musical work have been greatly reduced because of ICT (Shapiro & Varian, 1999). As a consequence the economies of scale that the major record companies have enjoyed in these fields may be strongly diminishing, as some authors have argued (Dolfsma, 2000). Shirky (2001: 144) argues "[d]*igital reproduction pushes those economics to the breaking point*." In this sense ICT proved to be the enabling technology for Napster and other file-sharing networks to become a success. Secondly, the (sunk) costs of recording a musical work have declined substantially by using digital recording technology (Leyshon, 2001). This sprouted the widely observed phenomenon of home recordings by the artists themselves. Thirdly, copyright as a means to ward off competitive imitation vastly eroded with the arrival of ICT. The music industry has yet to produce a viable response to ensure that copyrighted material cannot be illegally published, broadcast, rewritten, reproduced, or redistributed. As a consequence, illegal competitive imitation has been rampant at many stages of the value system; be it the composers using illegitimate samples taken from their peers, Internet radios broadcasting songs without offering the usual remuneration, or the consumers engaging in illegal downloads via peer-to-peer networks.

Given the fall of these protective barriers and the perception that the share of value captured is disproportionately high compared to the share of value created in music publishing, an increase in new entry and vertical integration into music publishing is expected. Applying proposition 1 to the particular circumstances of the music industries gives us Hypothesis 1.

Hypothesis 1: *Given that the share of value capture is disproportionately high given the share of value creation in music publishing and that the means of value protection can be overcome using information communication technologies, new entry and vertical integration into this stage should occur frequently relative to other stages.*

The creative artists in the upstream stages of the value system (composers, lyricists and performers) often perceive the record company's influence on (commercialization of) their work as reducing (rather than adding to) the subjective use-value of end product. This resentment on the part of artists regarding value creation is accompanied by their resentment regarding value-capture: the record company claims a large portion of the royalties as compensation for what artists might perceive as unwanted, value-destroying input. Indeed, given the enormous bargaining power of the major record companies, the creative artists generally do not fare well in the tug-of-war for shares of the value captured. Since their share of value captured is small relative to their share of value created, creative artists are expected to experience value chain envy. Since they are keenly aware of their loss of royalties, music publishing would be one obvious target of their value chain envy. Applying proposition 2 to the particular circumstances of the music industries gives us Hypothesis 2.

Hypothesis 2: *Composers, lyricists and performers will have the greatest propensity to vertically integrate since the share of value captured at those stages is disproportionately low relative to the share of value created, and information communication technologies have undermined the means of value protection for the more desirable stages of the value system.*

2.4 The Music Industries in the Netherlands

While much of the literature on the music industry describes the U.S. context, the structure observed in the Netherlands is similar in many respects. The major record companies in the Netherlands are the same as in the U.S. market. The Dutch music industry is marked by a high level of foreign content; close to 80 percent of the music that is bought is imported. These major record companies also market most of the Dutch content. Apart from their advantages in reproduction and distribution the major record companies also have strong relationships with the Dutch broadcasting industry, just as they do in the U.S. Indeed, the Dutch headquarters of all the major record companies are located in the vicinity of Hilversum (the center of radio and television broadcasting in the Netherlands). Like in the U.S., the musicians and other smaller players are generally dependent on the cooperation of the majors for handling downstream activities. Although Dutch copyright law differs from that of the U.S., the economic effects of copyright law for the music industries, and music publishing in particular, are comparable in nature and significance. Therefore the Dutch case offers a fairly similar context for testing hypotheses about the music industry.

2.4.1 Methodology

There were 884 firms listed with the Dutch Chambers of Commerce as music publishing companies or music reproduction companies in 2002. Due to financial and time constraints, 600 companies were randomly selected. An introductory letter was sent to each of these firms prior to a telephone interview. Three attempts were made to contact every company during regular business hours. If this did not result in a response, two further attempts were made after regular business hours. Usable data were obtained from telephone interviews with 146 of these firms (see Table I). The core of the questionnaire addressed the nature and scope of the activities that the respondent firm had undertaken throughout its existence.

The characteristics of the population made it difficult to contact many of these firms. First, many of these companies turned out to have no employees, so if the owner was absent nobody could answer the phone. Second, many of the day-to-day activities of these businesses take place away from the office (e.g., contacting prospective artists, making sound recordings). Third, many of these firms are not the primary sources of income for the owners. Since the owners were often employed elsewhere, almost 25 percent of the interviews were administered after six o'clock in the evening.

Table I: Interview Response Rates

Response	146
No Contact	328
Non-music	48
Bankrupt	19
No Relevance	22
Refusal	37
Total Target Sample	600

Close to 80 percent of the questionnaires were answered by the founder, the owner, or the CEO of the company. Most of the companies were very small; over 90 percent of the respondents had fewer than five employees. The median category with regard to turnover was 50-150 thousand euros for 2001.

2.4.2 Results

Table II summarizes the findings on the level of new entry and vertical integration. Since many of the companies were already vertically integrated to some degree, they are represented in more than one stage of the value system. Thus, column totals in Table II can exceed the number of companies interviewed. Yet other companies within the sample are not represented in Table II, as these were the result of founders setting up another company at the same stage of the value system, therefore being neither vertically integrating actors nor new entrants.

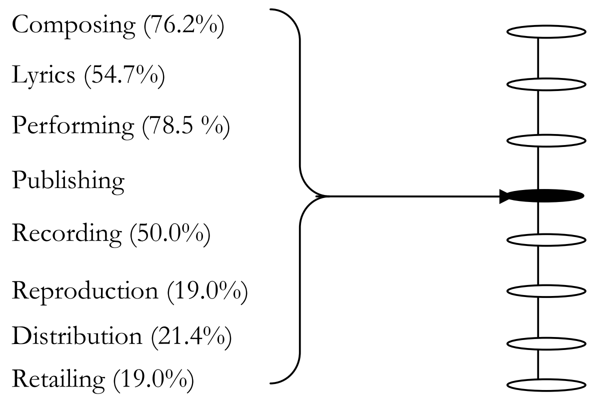
The frequencies of vertical integration and new entry are highest for the stages of music publishing and reproduction as predicted in Hypothesis 1. However, this might simply be due to a sampling bias since the sample was drawn from the population of Dutch firms currently active in these two stages. What is interesting is the relative frequency of new entry and vertical integration as the preferred entry mode into the different stages of the value system. Almost all new businesses in the upper end of the value system (composing, writing lyrics, and performing) are the result of new entry rather than vertical integration. At the lower end of the value system, however, the reverse was observed: almost all new businesses in publishing, recording, reproduction, distribution and retailing stemmed from vertical integration within the value system.

Table II: Entry Mode in the Music Industries

Activities	New Entry	%	Vertical Integration	%	Total	%
Composing	5	83%	1	17%	6	100
Lyrics	1	100%	0	0%	1	100
Performing	7	70%	3	30%	10	100
Publishing	5	11%	42	89%	47	100
Recording	7	19%	30	81%	37	100
Reproduction	3	19%	13	81%	16	100
Distribution	1	7%	14	93%	15	100
Retailing	3	19%	13	81%	16	100
Total	32	22%	116	78%	148	100

The vast majority of the newly founded companies in publishing were the result of vertical integration (42 out of 47). Figure 3 summarizes these findings on vertical integration (VI) into publishing at the outset of the firm. Notably, forward integration (from the artistic end) into publishing is very popular. Over three quarters of these actors had a background in composing and performing. In contrast, backward integration (from the sales end) into publishing was much less popular.

Figure 3: Propensity of VI into Music Publishing 1928-2002



A similar picture emerges when taking into account all 60 observed cases of vertical integration into publishing (see Table III). Again, the columns do not add up to 100% because the firms typically were engaged in more than one activity when integrating into publishing. Notably, the rate of vertical integration into publishing remained stable over the three time-intervals. Contrary to Hypothesis 1, it appears that digitalization has not opened the floodgates for vertical integration and new entry into publishing.

	Before 1992	1992-1997	1997-2002	Total
Table III: Vertical Integration (VI) into publishing over three different time periods				
Composing	15	14	14	43
	71.4%	70.0%	73.7%	71.7%
Lyrics	16	9	9	34
	76.2%	45.0%	47.4%	56.7%
Performance	16	14	15	45
	76.2%	70.0%	78.9%	75.0%
Recording	14	10	12	36
	66.7%	50.0%	63.2%	60.0%
Reproduction	9	5	9	23
	42.9%	25.0%	47.4%	38.3%
Distribution	9	6	7	22
	42.9%	30.0%	36.8%	36.7%
Retail	8	8	5	21
	38.1%	40.0%	26.3%	35.0%
Total	21	20	19	60
	100%	100%	100%	100%

It appears that innovations in ICT did not trigger forward integration into publishing; composers, lyricists, and performing musicians reported that neither digitalization nor the Internet were important in decisions to move into publishing (see Table IV). However, a somewhat mixed picture emerges regarding the importance of digitalization for the lower end of the value system. The Internet has gained in importance in terms of explaining decisions to backward integrate into publishing.

	Table IV: Importance of ICT for integrating into publishing 1992-2002							
	1992-1997				1997-2002			
	Digitization is important		Internet is important		Digitization is important		Internet is important	
	Agree	Disagree	Agree	Disagree	Agree	Disagree	Agree	Disagree
Comp.	6	7	2	11	6	4	5	4
Lyr.	3	5	2	6	3	2	3	1
Perf.	6	7	2	11	5	6	5	5
Rec.	3	6	1	8	4	4	5	2
Repr.	1	3	0	4	2	3	5	0
Distr.	3	2	0	5	2	1	3	0
Ret.	2	5	0	7	1	0	2	0

2.5 Discussion

The findings are somewhat mixed. The publishing and recording stages did show the highest frequencies of vertical integration and new entry, but this pattern might simply be due to sampling bias. Further, the advent of digital technologies has not yet triggered an increase in these frequencies. Thus, no strong support could be found for Hypothesis 1.

However, the vast majority of firms that vertically integrated into publishing came from the stages upstream in the value system associated with the creative artists (i.e., composers, lyricists, performers). This is consistent with the argument put forth regarding value chain envy: by integrating into music publishing, the creative artists could hope to capture more of the value they created (in particular, the income from royalties). Similarly, of the 82 music publishers active in 2002, 65% reported that they were commercially exploiting their own compositions and 56% were publishing their own lyrics under the umbrella of their own publishing company. This is consistent with Hypothesis 2.

One notable caveat is that nearly all of the newly founded firms in music publishing are very small firms; most of them have no employees and earn little income. Although this suggests that venturing a new business in music publishing does not require substantial financial endowments on the part of the entrepreneur, it also indicates that the means to capture value of these new publishing houses are not impressive. Thus, while "*the publisher's role has contracted to the point that anybody can be a music publisher*" (Caves, 2000), effective value capture remains out of reach for most.

This might explain the lack of support for Hypothesis 1. Although ICT has had an effect on scale advantages in the field of recording, reproduction, and distribution, it hardly seemed to have an impact on the levels of new entry and vertical integration towards publishing. This suggests that there may have been another barrier to entry, other than the scale advantages, which were underlying Hypothesis 1. Thus the explanation for the advantageous position of the majors should be found in an area that has not (yet) been affected by the introduction of ICT. Other than scale advantages, the major record labels have for long enjoyed strong relationships with the relevant selectors in the broadcasting media (program director, DJs, VJs, etc.). These relationships have long been regarded to yield a decisive competitive advantage to the majors (Peterson & Berger, 1975) and allow them to effectively translate their possession of music publishing rights into profits.

The developments with regard to ICT do not seem to have affected these relationships and the resulting competitive edge of the majors. The situation could become different if the Internet could lead to significant changes in the determinants of competitive success, and therefore, of the selection systems, in the music industries. An example of such a change would be that consumers would start buying CDs or pay to download music that has first become popular among users of (illegal) download services instead of music that is frequently played on radio and television. However, there is yet little evidence of such a development taking place.

2.6 Conclusion and Suggestions for Further Research

The main theoretical argument of this paper was that the desirability of establishing a value chain at a particular stage in a value system depends on the relationship between the value that can be created and the value that can be captured at that particular stage. When a value system is in equilibrium, the ratio between the shares of value capture and value creation is equal to 1 for all stages. If this ratio deviates from 1 in some stages, then the value system is out of equilibrium. Our argument is not applicable to a value system in equilibrium but serves to explain vertical integration and new entry in a system that is out of equilibrium. When the system is in disequilibrium, value chain envy will motivate firms to invade the more desirable stages of the value system, either through new entry or vertical integration. The feasibility of establishing a value chain at a desirable stage depends on the efficacy of the means to protect value at that particular stage.

With regard to the two theoretical approaches we described in the introduction and the theory section, this paper can be considered to have provided a contribution to a synthesis by providing a framework to explain the origins and consequences of profit differentials within a value system by explicitly linking possession of resources to create, protect and capture value with barriers to entry, horizontally as well as vertically. We used and extended Teece's insights about the interaction between competition at the stage of the producer and the relationships with actors at other stages of the value chain. Although we found reason to criticize the ambiguousness of his term complementary assets, we also found that complementary assets have had great significance for the developments in the music industry. Precisely by distinguishing the roles these assets can play in respect to creating, protecting and capturing value at different stages of the value system, the essential causes and effects of industrial dynamics can be more usefully studied.

In this paper, the concepts of value creation, capture, and protection within value systems have been employed to analyze recent developments in the recorded music industries, particularly those affecting the stage of music publishing. Over the course of the 20th century the value created at the stage of music publishing diminished steadily, while the value captured remained high, making this stage highly desirable. On the basis of the proposed theoretical framework one could expect value chain envy to trigger new entry and vertical integration towards that stage. Only the major record companies managed to do so successfully, precisely because they managed to translate their strengths at the stages of recording and distribution into value protection at the stage of publishing.

This situation seemed likely to change with the introduction of new information communication technologies in recent years, which led to a significant erosion of the competitive advantage held by the major record companies in the areas of recording, reproduction, and distribution. This in turn was posited to lead to a decrease in the efficacy of value protection and the corresponding height of barriers of entry at the desirable stage of publishing. However, upon closer examination of 146 companies active in the Dutch music industries over the period 1992-2002, a somewhat more nuanced picture emerges. Although most vertical integration could be traced back to stages where the value chain envy was most prominent, ICT seemed hardly to be an enabling technology for establishing oneself as a music publisher. Based on our data it would seem that the reason why the major record companies have been so effective in capturing value on the stage of music publishing may after all not be based on their scale advantages in the areas of recording, reproduction, and distribution but rather on their relationships with the relevant selectors, i.e. the broadcasting industry, which the smaller players still seem to lack. Even after the introduction of ICT it seems that one needs relationships with the relevant selectors before being able to compete effectively at the stage of music publishing.

The reasoning presented in this paper offers a number of suggestions for further research. Firstly, the empirical results presented in this paper, and the conclusions that could be drawn from them, provide further support for approaching the phenomena of vertical integration and new entry from an integral perspective. As is evident from our data the majority of entrants originate from other stages within the same value system. Both true 'de novo' entrants and entrants coming from within the same value system can be considered to have acted on similar grounds, responding strategically to observed disproportions between creation and capture of value. This strongly supports the argument for approaching all categories of entrants – whether 'de novo', 'de ipso', 'de alio' (Carroll, Bigelow, Seidel & Tsai, 1996) or vertically integrating agents – from a unified theoretical perspective.

Secondly, this study directs attention to the vertical distribution of assets and resources and their relationship to how value is created, captured and protected. This approach could extend the usefulness of the resource based view, taking into account all resources at all stages of the value system to explain the competitive advantage a firm can derive from its particular set of resources.

Thirdly, by taking the role of the selectors into more systematic account the way in which firms establish or scale barriers to entry could be explained more coherently. It seems natural, when looking at barriers to entry from the RBV perspective, to take notice of the ways in which resources can be employed to make it more likely that the relevant selectors will be willing to evaluate the products of entrants as valid examples of the relevant product category.

3 Where Are You From? Where Are You Going? Legitimacy, New Entry, and Performance in Popular Music

3.1 Introduction

New entry is about taking risks. Bain (1956) noted that entry barriers – and the risk of failure they constitute - are proportional to each entrant's competences and resources. This implies that the risk associated with the entrant's new venture is inversely related to the entrant's initial portfolio of assets (Bruderl & Schussler, 1990). Furthermore, stakeholders who perceive a particular venture to be risky are less likely to avail other critical assets to the firm, which in turn increases the risk of failure.

Stinchcombe (1965) labeled the difficulties that a new entrant encounters in its early years of existence as the 'liability of newness'.[7] Subsequently, institutional theorists have argued that at the core of this liability lies the fact that new entrants lack the taken-for-grantedness that incumbents enjoy (Aldrich & Fiol, 1994). This lack of familiarity causes relevant stakeholders to be extra cautious before committing themselves to the new venture. As a result new entrants often find it cumbersome to procure the necessary resources (Williamson, Cable & Aldrich, 2002). By adopting customary rules and practices, a new entrant can signal its legitimacy and thereby mitigate the adverse effects of unfamiliarity (Meyer & Rowan, 1977). Lack of such institutional support is a prime cause for early organizational mortality (Singh, Tucker & House, 1986). As such, the concept of organizational legitimacy has helped explain differentials in firm survival and growth (Carroll, Bigelow, Seidel & Tsai, 1996).

Acknowledging its far reaching consequences for an organization's viability, many scholars set out investigating the origins of legitimacy. This line of research culminated in a fundamental disagreement with regard to whether or not organizational legitimacy is malleable, i.e. whether or not it can be placed under managerial control. Broadly speaking, there are two contrasting views: the strategic approach and the institutional approach (Suchman, 1995). Advocates of the strategic approach argue that organizational legitimacy stems from a firm's deliberate endeavors to ensure that it develops in lockstep with its environment (Pfeffer & Salancik, 1978; Ashforth & Gibbs, 1990; Delmar & Shane, 2004). This reading entertains a view of legitimacy as an operational resource that the organization can allocate to advance its interests. Proponents of the institutional approach, however, emphasize that organizational legitimacy is the result of a collective structuration effort that exceeds, both in scale and scope, the legitimating strategies of individual firms (DiMaggio & Powell, 1983).

This debate may remain unresolved because several key issues are not adequately addressed and opaque definitions and conceptualizations remain. Firstly, what needs to be legitimated? Secondly, legitimated by whom? And thirdly, legitimated to what end? With regard to the first issue, various elements of the organization require legitimation, including: the product (Rao, 1994), the procedure (Scott, 1977), the economic role (Baker & Faulkner, 1991; Rao, Monin & Durand, 2003), the organizational form (Hannan & Carroll, 1992), and the industry (Aldrich & Fiol, 1994). The second issue concerns identifying the sources of legitimacy, which grant the firm - or certain aspects of it - acknowledgement and recognition in the eyes of stakeholders. Legitimacy comes in as many forms as there are sources, including: credentialing mechanisms (Rao, 1994; Zuckerman, 1999), social political constituencies, (Aldrich & Fiol, 1994), inter-organizational linkages (Stuart, Hoang & Hybels, 1999; Higgins & Gulati, 2003), listings in the public directories (Singh, Tucker & House, 1986) and media attention (Pollock & Rindova, 2003). These have all produced proxies for organizational legitimacy. The third issue is the purpose of legitimacy: to instill enough confidence in the new organization so that third parties will economically align their interests with those of the firm. As such, legitimacy mitigates the uncertainty of consumers (Rao, 1994) and financial partners (Higgins & Gulati, 2003; Pollock & Rindova, 2003).

Although higher levels of legitimacy are often linked with increased performance, the results are mixed (Westphal, Gulati & Shortell, 1997). Gimeno, Folta, Cooper & Woo (1997) have argued that the ambiguity of this relationship might stem from internal and external constituents allowing low-performing but legitimate ventures to endure while curbing high-performing but illegitimate ventures. This line of reasoning is crucial for it nuances the presumed unequivocalness of the relationship between legitimacy and performance. Constituents might view an organization as legitimate precisely because it is not (or limitedly so) profitable. This implies that the relationship between organizational legitimacy and its performance is not as straightforward as earlier was presumed. This directs attention to how performance as an indication of success is measured and operationalized. Performance usually is defined in terms of financial success - also in this paper - but it is important to note that entrepreneurs as well as external stakeholders can strive for other outcomes apart from financial ones and that this may well have an impact on the observed relationships between legitimacy and performance.

Exploring the relationship between legitimacy and performance becomes even more arduous in the case of new firms because the newness of the firm hinders to a great extent the detection of bonafide markers for legitimacy. When assessing the legitimacy of an organization much emphasis has been put on the desirability, propriety, and appropriateness of the *actions* of an organizational entity (Suchman, 1995). Yet at the outset of the firm it is unlikely that many actions have been undertaken and as a result it seems improbable that the stakeholders use them as proxies when evaluating legitimacy. Not only have actions still to be realized; starting entrepreneurs typically undertake them a random fashion and at different stages of the venture creation (Block & MacMillan, 1985; Carter, Gartner & Reynolds, 1996). This implies that developing a consistent portfolio of actions in the eyes of the relevant stakeholders takes time. Thus the actions undertaken by the entrepreneur are unlikely to form a reliable set of indicators for the new venture's legitimacy. Therefore it is likely that in the initial stages of the venture other markers are used to measure the legitimacy of the new venture.

This paper emphasizes that it is the *entrepreneurial objectives* and the *entrepreneurial experience* of the new organization that are subjected to evaluation in the legitimating processes. The underlying rationale is that both *entrepreneurial objectives* and *entrepreneurial experience* can be judged by internal and external constituents to be more (or less) legitimate for the type of venture that the entrepreneur likes to pursue. The past, in terms of the relevant entrepreneurial experience, and the future, in terms of where the entrepreneur envisions to take his/her business, are the metaphors with which the prospective entrepreneur makes an attempt to rationalize why all relevant stakeholders – including the entrepreneur him or herself – should align their interests with those of the new venture.

In this paper we define entrepreneurial experience as having assumed relevant roles in the past. Consequently, we will argue that these roles form the basis for garnering legitimacy and therefore for securing resources and eventually performance. Stinchcombe (1965) suggested that it was precisely the lack of familiarity with new roles that generated the liability of newness on the part of the new organization. Previously assumed roles are judged not only by external constituents (Baker & Faulkner, 1991) but also by internal constituents, most notably the entrepreneur, (Harvey & Evans, 1995) on their desirability, propriety, and appropriateness.

Yet prior experience is not all the entrepreneur brings to the firm. The entrepreneurial objectives should be in tune with what the internal and external constituents see as desirable, proper, and appropriate before they can be persuaded to commit their resources to the firm. For instance, venture capitalists actively monitor the motivation of the entrepreneur and adapt their investment strategy accordingly (Wijbenga, Postma, van Witteloostuijn & Zwart, 2003; Shane, Locke & Collins, 2003). It is therefore not surprising that entrepreneurial motivation has had differential effects on firm growth and survival prospects (Birley & Westhead, 1994).

This study sets out to investigate the effects of *entrepreneurial objectives* and *entrepreneurial experience* as markers of organizational legitimacy. For both we assume that the legitimacy of the entrepreneur will be conferred onto the new organization as has been suggested before (Meyer & Rowan, 1977). With regard to entrepreneurial experience, we have identified several key roles: prior founding experience, prior industry experience, prior experience in supplying industries, prior organizational experience, and prior market experience. With regard to entrepreneurial objectives, we have formulated several goals that the entrepreneur can pursue via the creation of the new venture.

In the subsequent section we will derive from the literature on new entry a number of proxies that can signal the new venture's level of legitimacy. We analyze questionnaire data gathered from 131 companies active in the Dutch music industries. We examine entry modes into three different industries: 1) the music publishing industry, 2) the recording industry, and 3) the reproduction industry. We analyze how different markers of legitimacy affect the performance of the new entrants (measured in terms of profit growth and turnover growth). After discussing the results, we consider their implications for our understanding of organizational legitimacy.

3.2 Theory

In this section, we review the literature on new entry. In doing so, we explore and develop various theoretical perspectives that suggest specific relationships between indicators of legitimacy and the performance of new entrants.

3.2.1 Entrepreneurial Roles: Prior Founding Experience

The impact of prior founding experience on the growth and development perspectives for the new venture has been extensively studied in the entrepreneurship literature, but yielded conflicting results (MacMillan, Zemann & SubbaNarasimha, 1987; Starr & Bygrave, 1992; Westhead & Wright, 1998). Although, habitual founders are more likely to have a better grasp of what it takes to start a new organization, prior founding experience can also constitute a 'liability of staleness' when entrepreneurs develop a blind spot and fail to recognize and resolve critical issues (Starr and Bygrave, 1992). This liability is especially critical for entrepreneurs who have failed in previous ventures. Despite their past failures, other lines of research point out that these entrepreneurs likely retained their social networks and knowledge (Alsos & Kolvereid, 1998). As a result, they likely enjoy more legitimacy than inexperienced new entrants in the eyes of their financial partners and other crucial stakeholders. Due to their experience, habitual entrepreneurs are more likely to identify innovative business opportunities than their novice counterparts (Ucbasaran, Westhead, Wright & Binks, 2003). Therefore it was argued that venture capitalists and providers of private equity show greater interest in habitual entrepreneurs, as they are more likely to initiate profitable businesses than other entrepreneurs. This implies that past organizational founding experience is a marker of legitimacy.

3.2.2 Entrepreneurial Roles: Prior Organizational Experience

Although entrepreneurship has been predominantly associated with small and new firms, the literature has acknowledged the importance of corporate sponsored ventures as well (Zahra, 1991; Antoncic & Hisrich, 2001). Various studies have found evidence that corporate sponsored ventures typically outperformed independent entrants (McDougall, Robinson, Richard & DeNisi, 1992; Zahra, 1996). When embarking on an entrepreneurial opportunity, well-endowed firms often face a strategic choice: to enter a new industry through acquisition or through internal venturing. The preferred mode of entry often depends on the optimal organizational context for capitalizing on the mother company's competences (Yip, 1982).

We propose that the performance of the new venture depends on the extent to which the entrepreneur can draw on the accumulated experience (and resources) of the mother organization. Wealth of experience can signal the legitimacy of the new venture towards the internal and external constituency. Thus it seems probable that the entrant's role as an intrapreneur has significant impact on the legitimacy of the new venture and therefore will positively affect its performance.

3.2.3 Entrepreneurial Roles: Prior Industry Experience

Entrants with expertise in the target industry may also enjoy greater legitimacy than those lacking that expertise. Having industry-specific human capital was found to heighten the chances of organizational survival (Pennings, Lee & van

Witteloostuijn, 1998). As such, it is unsurprising that new entry initiated by companies already present in an industry typically outperformed newcomers from outside (Dobrev, 2001). New entrants may have acquired crucial knowledge while working at other firms inside the industry (insiders). Such 'prior knowledge' may greatly aid the discovery of entrepreneurial opportunities (Shane, 2000). As a result, insiders were more likely to attract external financing than those who had not (Burton, Sørenson & Beckman, 2002). Meanwhile, outsiders come in two varieties: those entering from related upstream or downstream industries (related outsiders) and those entering from unrelated industries (complete outsiders). Unlike complete outsiders, related outsiders are more likely to know about the industry's idiosyncratic practices and routines and are hence more likely to attain a higher level of legitimacy. This is consistent with the sociological literature on roles, which argues that having prior experience with a specific role increases the viability of taking on related roles (Baker & Faulkner, 1991; Rao, Monin & Durand, 2003). Moreover, Baker and Faulkner (1991) argued that having assumed related roles might raise legitimacy and thus the chance of garnering critical resources. Following this line of reasoning we posit that having prior industry experience is an indicator of legitimacy that benefits the entrepreneur.

3.2.4 Entrepreneurial Roles: Prior Experience in Supplying Industries

Capturing adequate inputs is critical for new entrants. At best, they must compete with incumbents who have longstanding relationships with suppliers (Stinchcombe, 1965). At worst, new entrants try to establish themselves in a new industry, without any beaten paths to established and trustworthy suppliers and without any incumbent role models for their procurement strategies (Aldrich & Fiol, 1994). Furthermore, information asymmetry between the entrepreneur and a potential supplier can threaten the availability of crucial resources (Shane & Cable, 2002). A new entrant must reduce the suppliers' uncertainty so that they commit themselves commercially to the new venture, and share its uncertain economic fate. This risk is higher when new entrants have few chances to prove themselves vis-à-vis their prospective suppliers. Given the uncertainty of the commercial success of the new entrant, suppliers may prefer dealing with entrants that display in-depth knowledge of the goods and services that the suppliers have on offer. Not only does such knowledge demonstrate professionalism, it is also likely to raise the expectations on the part of the supplier that the entrepreneur will succeed, thereby decreasing the likelihood of bankruptcy and failure to pay for procured products. Therefore, new entrants that enjoy such legitimacy are less likely to incur procurement problems than those lacking that legitimacy. This suggests that having assumed roles that indicate superior knowledge of suppliers' business activities are also markers of legitimacy.

3.2.5 Entrepreneurial Roles: Prior Market Experience

New entrants have yet to establish their legitimacy towards their prospective market. Especially in markets in which consumers have difficulty assessing the value of the competing products, the potential value of a new entrant's product is not immediately recognized. Product critics often mediate such markets, and their evaluation often decides the outcome of competitive processes (Hirsch, 1972; Zuckerman, 1999). Product comparisons are especially critical in the formative years of an industry (Rao, 1994) and typically retain their value in more established industries (Eliashberg & Shugan, 1997; Anand & Watson, 2004). Third parties often serve as product critics, but producers can also do so by evaluating their competitor's products (Wijnberg & Gemser, 2000). Such evaluations do not necessarily take the form of an explicit rating of competing products in terms of 'evaluative schemas' (Hsu, 2004). As showcasing is seen as a form of endorsement, simply putting the product on display can win over the consumer just as effectively, according to Wijnberg and Gemser's (2000) 'selection systems' framework. Thus selectors assume a double role: identifying which products to consider, and then evaluating these products using the criteria they deem relevant (Zuckerman, 1999). Distinguishing between the two roles, identification and evaluation, suggests that legitimacy, especially for new entrants, may depend on the dominant set of selectors noticing them and recognizing them as valid competitors. As Pollock and Rindova (2003) have shown, evaluations aid in constructing legitimacy rather than merely reflecting it, thereby affecting third parties' risk-taking behaviors. Yet, establishing such relationships often requires proximity and time, which new entrants often lack because of their liability of newness. Thus, having assumed roles that elicited acknowledgement by selectors likely serves as a marker of legitimacy for internal and external constituencies.

3.2.6 Entrepreneurial Objectives

Why do entrepreneurs start new ventures? Prior research differentiates among internal and environmental motivations for entrepreneurial behavior. Internal factors were largely explored by building on insights from the psychological discipline, notably the literature on personality traits (Allport, 1961) and social learning theory (Bandura & Walters, 1963). Environmental factors were largely understood in terms of industry driven stimulants for new entry; new entry as a response to a radical innovation (Schumpeter, 1950), new entry triggered by perceived profitability (Bain, 1956) or new entry as a reaction to an increasing resource space (Hannan & Freeman, 1977).

Although these perspectives remained separate for many decades, recent studies have examined how the internal objectives are perceived by the external environment. Venture capitalists actively monitor the entrepreneur's motivation and adapt their investment strategy accordingly (Wijbenga, Postma, van Witteloostuijn & Zwart, 2003; Shane, Locke & Collins, 2003). Shane and Cable

(2002) argue that how the entrepreneur frames his own motivations and objectives in the interaction with suppliers is crucial for securing additional resources. These findings suggest that the objectives that underlie the initiation of the new venture have a dual role. They should have a self-legitimating aspect for the entrepreneur justifying the amount of time, resources and effort that the new organization will require. Additionally, the external constituency should endorse these objectives as legitimate reasons for the type of venture that the entrepreneur wishes to pursue. The immediate environment (family, potential resource suppliers, governmental agencies etc.) might doubt the legitimacy of a venture that it views as largely a pet project of the entrepreneur lacking consideration of what is desirable, proper, and appropriate in the external context in which the new organization is to operate. For this reason we assume that the intrinsically motivated entrants (as opposed to those seeking rent) are likely to exhibit a lower performance measured in *financial* terms precisely because the external environment will be cautious when supplying their resources (unless they share the non-profit driven objectives of the new organization). Also, intrinsically-motivated entrepreneurs gain direct psychological benefits from the new venture and tend to be satisfied with lower financial returns compared to entrants without intrinsic motivation. As such, intrinsically motivated entrants might have a lower financial threshold (in terms of profit and turnover aspirations) for deciding whether to enter an industry, and therefore these entrants may tend to have lower financial returns upon entry. Both arguments direct attention at the entrepreneurial objectives as an indicator of legitimacy. We posit that differences in financial performance of new entrants can be explained by whether or not the underlying goals were seeking financial or non-financial returns.

3.3 Methodology

The music industries are particularly well suited for the purposes of this study. As in other industries, legitimacy has been acknowledged to be an important factor for competitive success (Anand & Peterson, 2000; Anand & Watson, 2004). Successful new entry was reported for the established and well-endowed record companies, which invaded the music publishing industries in the 1980's (Huygens, Baden-Fuller & Van-Den-Bosch, 2001). This type of new entry was typically the result of internal venturing or acquisition (Burnett, 1996). Although pursuing an entrepreneurial career is commonplace in the loosely coupled labor markets that most cultural industries adopted (Menger, 1999), new entry on the part of less legitimate actors, such as composers, proved more cumbersome (Burke, 1997; Mol, Wijnberg & Carroll, 2005). The only artists that could overcome the odds were the established stars that started their own record or publishing company (Sanjek & Sanjek, 1991). The underlying rationale was that performance could for the greater part be attributed to the possession of having closely knit relationships with the broadcasting industry (Peterson & Berger, 1975), attesting to the fact that media can bestow legitimacy on an actor (Pollock & Rindova, 2003). These relationships were so pronounced that they might explain the high levels of observed industry concentration (Peterson & Berger, 1975). When the introduction of digital technology lowered entry barriers for the recording and reproduction industries, leading performing artists entered (Canetta & Winn, 2002; Mol, Wijnberg & Carroll, 2005). This together with the promise of the Internet as a new platform for the dissemination of music (Shirky, 2001) could substantially enhance the viability of new entry.

Although the majority of the academic literature focuses on the developments within the US, the music industries in the Netherlands resemble those of the US in many respects. The industries are similar in constitution, with the major record companies grossing 83% of the turnover in 2002 (NVPI, 2003).

These companies can economize on their international repertoire, which is close to 80 percent of accumulated sales (NVPI, 2003). As in the US, the majors enjoy strong relationships with the Dutch broadcasting industry (Rutten, 1992), as suggested by the locations of the headquarters of the major record companies near Hilversum, the center for radio and television broadcasting in the Netherlands. And for a reason: the broadcasting industry, and especially radio, played a crucial role in the development of musical taste patterns in the Netherlands, explaining to a large extent the advent of pop music (Dolfsma, 1999).

3.3.1 Data

The Dutch Chambers of Commerce listed 884 respondents as music publishing companies or music reproduction companies in 2002. Music recording companies did not constitute a separate category, but were incorporated in the aforementioned categories. As we are primarily interested in the effects of legitimacy on the performance of small firms, we excluded the major record companies (e.g. Sony, EMI, BMG, Warner, and Universal) from our sample. Subsequently, we randomly selected 600 companies for telephone interviews. We used a structured questionnaire that was based on an earlier pilot study, exploring the same issues with more open-ended questions. After sending an introductory letter to each respondent, we called them for an interview via the telephone. If we did not establish a contact during the first attempt, we called an additional two times during regular business hours and if necessary, two additional times after regular business hours. Of these respondents, 131 had entered the music publishing, recording, or reproduction business. The respondents were typically the founder, the owner, or the CEO of the company. One respondent entered publishing and then entered recording. Otherwise, all companies entered one or more of these three industries during the same time.

Respondents did not answer every question, resulting in missing data (6% of the total data used in this study). Missing data can lead to the following problems: (a) loss of efficiency; (b) complication in data handling and analysis; and (c) biases due to differences between the observed and unobserved data (Barnard & Meng, 1999). To address these issues, we imputed values for the missing data with Markov Chain Monte Carlo multiple imputation (Rubin, 1996; Schafer, 1997; Schafer, 1999) using LISREL (Jöreskog & Sörbom, 2002). Computer simulations have shown that other approaches to missing data (pair wise deletion, list wise deletion, mean substitution and simple imputation) do not address the above concerns as effectively (Brown, 1994).

3.3.2 Variables

This data set consists of 131 respondents' entries into music publishing, recording or reproduction. It is important to note that new entry is operationalized as entry into a new industry. As such, new entry does not necessarily have to manifest itself as the creation of a new firm, but can also take form through expansion of current business operations (Lumpkin & Dess, 1996). We used binary variables indicating specific periods in which new entries occurred, 1992_1997 and 1998_2002. Entry before 1992 is indicated when both of these variables have the value 0. Entry variables were binary variables while profit growth and sales growth were ordered variables. These variables indicated whether a respondent had begun providing products or services in a new music industry within a given time period: PUBLISHING, RECORDING, and REPRODUCTION. PROFIT GROWTH and SALES GROWTH were ordered variables indicating the change in profits or sales within each time period (from start to end). Profit growth and turnover growth both ranged from 1 (steep fall) to 5 (fast growth). As a robustness test of the results, we also repeated the analyses below on binary variables POSITIVE PROFIT GROWTH and POSITIVE SALES GROWTH with values 'yes' or 'no'.

The variable STARTUP_EXP indicated whether or not a respondent had founded another company before entry.

The following binary variables indicate corporate sponsored entrepreneurship: CORP_SPONS and VERTICAL_INTEGRATION. CORP_SPONS referred to entries with over 50% of equity owned by a mother company. VERTICAL_INTEGRATION indicated that the entrant firm has spun off from a firm that is currently active in another music industry.

The variables IPSO, INTRA, and EXTRA denoted whether or not entrants had work experience in the same industry (IPSO), another music industry (INTRA) or an industry outside of music (EXTRA)[8]. As some firms entered multiple industries at the same time, we distinguished PUBLISHING_IPSO, RECORDING_IPSO, REPRODUCTION_IPSO, PUBLISHING_INTRA, RECORDING_INTRA, and REPRODUCTION_INTRA. EXTRA serves as the baseline, and was indicated by values of zero in both IPSO and INTRA. For example, values of zero for both PUBLISHING_IPSO and PUBLISHING_INTRA indicated PUBLISHING_EXTRA.

Suppliers of inputs are likely to attribute the highest level of know-how about their own business dealings to entrants that had experience in creating these inputs themselves such as melodies and lyrics. MELODY_COPYRIGHT and LYRICS-_COPYRIGHT were binary variables indicating whether entrants were pursuing remuneration of one of these respective copyrights under the umbrella of the new venture.

DJs on the radio or VJs on television largely mediate the market for popular music. Thus, airplay on the major broadcasting stations virtually secured subsequent sales of a song (Coase, 1979; Montgomery & Moe, 2000). As mentioned earlier, the success of the major record companies has been largely attributed to the closely-knit relationships in the broadcasting industry (Peterson &

Berger, 1975). Also, live performance venues and clubs have considerable clout in determining the value of music, especially with regard to new musical markets (Scott, 1999). As an indicator of visibility among potential selectors, we analyzed the effect of entrants' access to these media outlets with these binary variables (yes/no): CONCERT_HALL, MAGAZINE, RADIO, TV, MOVIE/COMMERCIALS, and FOREIGN_COUNTRIES.

When operationalizing the entrepreneurial objectives, we first consulted the literature on entrepreneurial motivation (e.g. Wainer & Rubin, 1969). Some entrepreneurs are motivated by profit or business driven arguments (Schumpeter, 1949). Others pursue self-employment because of intrinsic motivation (Wigfield & Eccles, 1992). These include such diverse motivations as: the desire for power (Winter, 1973), the desire for autonomy (Schein, 1994), the desire to control one's own time (Birley & Westhead, 1994), the need for achievement (McClelland, 1961), or simply the sheer discontent with previous employment (Hirschman, 1970).

The final set of entrepreneurial objectives that were included in the questionnaire were based on the goals that were most often reported in the earlier pilot study. We operationalized the motivations of entrants using binary variables indicating whether a specific reason was important in the respondent's decision to enter a music industry. These included financial reasons: MORE_PROFIT, TAX_DEDUCTION, COMMERCIALIZE_EXPERTISE, REDUCE_COSTS, CONTROL_SALES and DIVERSIFY and non-financial reasons: INTEREST, CONTROL-_USE, and PUSH. CONTROL_SALES indicated that a respondent entered an industry to control how their music was sold. In contrast, CONTROL_USE indicated whether a respondent entered an industry to control how one or more products were used or modified in terms of content. INTEREST indicated intrinsic interest in the work. PUSH indicated that the entrant said that no one else could do the necessary task. We controlled for firm age, absolute turnover, time period of entry, and number of employees. We also tested for interaction effects among the above predictors.

3.3.3 Reliability, Validity, and Biases

Reliability checks of questionnaire items through similar versions of the same question are likely unnecessary as answers to questions are likely to remain the same (firm age, more profits, motivated by profits). Hence, congeneric factors created from tetrachoric correlation-based confirmatory factor analyses (Jöreskog & Sörbom, 2002) were not necessary. Furthermore, variables can change over time (e.g. resources, experience etc.), so collecting time-series data to test for stability over time would not be appropriate (McGrath, MacMillan & Venkataraman, 1995). Likewise, other people cannot reliably assess a person's internal motivation, thus inter-rater reliability is not relevant in this case.

We carefully examined the research literature to create our variables and increase our construct validity. In doing so, we build on and extend prior research. We addressed external validity by encouraging respondents to expand on their answers, allowing their detailed explanations to provide further evidence of their understanding of the questions and increasing confidence in their initial answers.

Past studies show that respondents tend to be biased toward positive perceptions of self, e.g., increased profits (e.g. Blaine, 1994). As our questions focused on past events however, respondents tended to be less personally invested in them (Blaine & Crocker, 1993). For example, most respondents had negative perceptions of their new entry into the music industry.

3.3.4 Analysis

To estimate the effects of predictors on the ordered outcome variables profit and turnover growth, we used a structural equation model based on preliminary maximum-likelihood ordered Logit/Probit/Gompit regressions

(Aitchison & Silvey, 1957). Ordered variables do not have fixed intervals between values, so using a least squares regression (which assumes fixed intervals) would have led to bias in the estimation of the standard errors (Finney, 1971). In contrast, Logit/Probit/Gompit models estimated the likelihood that a variable value is at a higher value rather than a lower value (e.g., 1 rather than 0). Combining overlapping models, such as (0, 1) and (1, 2), yields an ordered model (0, 1, 2) that does not require fixed intervals (Aitchison & Silvey, 1957). However, Logit, Probit and Gompit use slightly different underlying distribution assumptions to model the data. To choose the best fitting Logit, Probit or Gompit model, we picked the one with the lowest Akaike information criterion or AIC (Grasa, 1989). The AIC is a measure of goodness of fit, adjusted by a penalty that rises with the number of regressors in the model. The results also reported McFadden's (1974) R^2, an estimate of the coefficient of determination.

We used sequential sets (Cohen & Cohen, 1983) of the Logit/Probit/Gompit regressions described above to estimate models for the outcome variables: profit growth and sales growth. We entered the variables according to chronology, causality constraints, and likely importance. First, we entered the year variables. Then, we added the above variables describing different types of entry. Then, we entered the industry in which the firm entered. For discrete outcome variables, the likelihood ratio test for significance of additional explanatory variables is not reliable (Goldstein, 1995). So, we used Wald tests instead (Davidson & MacKinnon, 1993). Also, doing many tests on one set of data can increase the likelihood of a spurious correlation. To address this problem, we used Hochberg's (1988) variation on Holm's (1979) method. Only significant variables were retained in subsequent sequential regressions.

Using ordered predictors in a least squares regression (which assumes fixed intervals) tends to bias the estimates of the regression coefficients toward zero (Judge, Griffiths, Hill, Lutkepohl & Lee, 1985). As noted above, we used

Logit/Probit/Gompit for ordered outcome variables. For ordered and binary predictors, we used a weighted least squares structural equation model (SEM) with polychoric correlations, tetrachoric correlations and their asymptotic covariance matrix via LISREL (Jöreskog & Sörbom, 2002).

Path analysis results provided the initial candidate for the SEM. If different predictors were significant for the regressions predicting profit growth and turnover growth, we tested whether these predictors affected both outcome variables in the SEM. This procedure adjusts for the tendency of the regressions on ordered predictors to report truly significant ones as non-significant and allows us to test all effects simultaneously. We removed all non-significant predictors from the initial SEM to obtain the final SEM. The SEM included standardized coefficients to simplify comparison of the effects of different predictors and to compute direct, indirect and total effects (Cohen & Cohen, 1983). We also reported reduced form squared multiple correlations (SMC's) for each outcome variable, comparable to explained variance, R^2, the coefficient of determination (Cohen & Cohen, 1983).

Researchers identified several robust SEM goodness-of-fit measures with Monte Carlo simulation studies (Hu & Bentler, 1995). These include the incremental fit index (IFI), comparative fit index (CFI), Tucker-Lewis Index (TLI; also known as non-normed fit index or NNFI (Tucker & Lewis, 1973), and root mean square error of approximation (RMSEA). Hu and Bentler (1999) showed that using a combination of one of the above fit indexes and the standardized root mean residual (SRMR) tends to minimize Type I and Type II errors under many conditions. For sample sizes smaller than 250, the following ranges can be relaxed somewhat, (Hu & Bentler, 1999). For RMSEA, 0.06 or less shows a good fit. A value between 0.06 and 0.10 indicates a moderate fit, and one greater than 0.10 indicates a poor fit. For SRMR, less than 0.08 indicates a good fit. A value between

0.08 and 0.10 shows a moderate fit. Greater than 0.10 indicates a poor fit. For IF, CFI, and TLI, 0.96 or higher indicates a good fit. Between 0.90 and 0.96 indicates a moderate fit. Less than 0.90 indicates a poor fit. We reported all of these measures along with other commonly used ones. We estimated ordered Logit/Probit/Gompit models with the statistical software, E-views (Lilien, Startz, Ellsworth, Noh & Engle, 1995). An alpha level of .05 was used for all statistical tests.

3.3.5 Results

We begin with a brief review of the descriptive results before discussing the preliminary regressions and the SEM. For the sake of brevity, we included only the central results, the Logit regressions with only the significant variables and the SEM.[9]

3.3.6 Descriptive results

We identified 215 entries into publishing, recording, and reproduction. Most of the companies were very small; over 90 percent of the respondents had fewer than five employees (see summary tables A1 and A2). About 48% had revenue of 50,000 euros or less while only 10% had revenues exceeding 500,000 euros. Indeed, 34% of the respondents continued doing other jobs. These entrants often had copyrights (68%) but few possibilities to offer exposure via any other media outlets (32%), and most had related work experience but little experience running a firm. Most respondents had worked either in the industry they would enter (30% in publishing, 48% in recording, 49% in reproduction) or in a related music industry (63% of those entering publishing, 46% entering recording, 47% entering reproduction). Only 7% entered an industry without any music experience. However, few entrants had start-up experience (11%), experience running a firm in another music industry (5%), or corporate support (2%)

Table A1: Summary tables, correlation covariance matrix and ancillary analyses

Panel A. Summary table of continuous and binary variables for all respondents in all time periods

Variable	Mean	Std. Dev.	Minimum	Maximum
Profit	3.33	1.14	2	5
Turnover	3.57	1.05	2	5
Publishing	0.61	0.49	0	1
Vertical Integration	0.05	0.22	0	1
Publishing Ipso	0.18	0.39	0	1
Recording Ipso	0.33	0.47	0	1
Melody Copyright	0.67	0.47	0	1
Radio Access	0.45	0.93	0	3
Motive: Interesting	0.68	0.47	0	1
Motive: For profit	0.65	0.48	0	1
Motive: Control Copyright Sales	0.26	0.44	0	1
Start-up Experience	0.11	0.31	0	1

Panel B. Summary table of ordered variables

	Proportion of observations with each value					
Variable	0	1	2	3	4	5
Profit		0	0.33	0.23	0.24	0.20
Turnover		0	0.18	0.31	0.27	0.24
Radio Access	0.77	0.08	0.08	0.08	0	0

Table A2. Correlations, variances, and covariances of the outcome variables and the significant predictors.

The lower left triangle contains the correlations. The diagonal contains the variances, and the upper right triangle contains the covariances.

	Variable	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.
1.	Profit	1.28	1.08	0.01	0.05	-0.18	0.08	-0.21	-0.16	0.32	-0.04	0.11	0.06
2.	Turnover	0.91	1.09	0.02	0.05	-0.12	0.04	-0.23	-0.16	0.23	-0.07	0.14	0.05
3.	Publishing	0.01	0.03	0.24	0.01	-0.04	0.02	-0.06	0.00	0.07	0.07	-0.01	0.01
4.	Vertical Integration	0.20	0.23	0.05	0.05	0.00	-0.01	-0.02	-0.01	-0.02	-0.01	0.02	-0.01
5.	Interesting	-0.34	-0.24	-0.18	0.02	0.22	0.00	0.05	0.02	-0.15	-0.04	-0.01	0.00
6.	Control Copyright Sales	0.15	0.09	0.11	-0.06	-0.01	0.19	0.00	0.09	0.15	-0.03	0.05	0.02
7.	Recording Ipso	-0.39	-0.46	-0.26	-0.17	0.21	-0.01	0.22	0.04	-0.10	0.02	-0.04	-0.01
8.	Melody Copyright	-0.29	-0.32	0.00	-0.12	0.10	0.42	0.16	0.22	0.11	-0.05	-0.01	0.01
9.	Radio Access	0.31	0.24	0.16	-0.12	-0.35	0.37	-0.23	0.24	0.85	-0.05	0.10	0.04
10.	Publishing Ipso	-0.10	-0.16	0.37	-0.11	-0.23	-0.19	0.13	-0.29	-0.13	0.15	-0.02	-0.01
11.	For Profit	0.20	0.28	-0.03	0.17	-0.02	0.25	-0.16	-0.05	0.22	-0.11	0.23	-0.01
12.	Start-up Experience	0.16	0.17	0.07	-0.08	-0.03	0.13	-0.09	0.03	0.15	-0.10	-0.06	0.09

Most entrants entered only one industry, but a substantial number entered multiple industries. Of these entrants, 24% entered only publishing, 27% entered only recording and 5% entered only reproduction. Meanwhile, 16% entered both publishing and recording, 2% entered publishing and reproduction, and 7% entered recording and reproduction. A larger percentage, 19%, entered publishing, recording and reproduction. Overall, these entrants were moderately successful. Profits rose during 45% of the entries, remained the same during 23% of entries, and fell during 32% of them. Meanwhile, turnover rose during 51% of entries, remained the same for 31% of entries, and fell during 18% of entries.

The final SEM gave support for considering three of the proposed roles important for achieving performance, while two others did not seem to have the impact the theory suggested (see table 1, table 2, and figure 1). Entrants via vertical integration had higher profit growth and higher turnover growth than other entrants did. However, corporate sponsorship was not a significant predictor. Meanwhile, entrants with start-up experience had positive but borderline non-significant effects (p = .08 for profit growth and p = .12 for turnover growth) and therefore start-up experience was not included in the final SEM. Consistent with the regression results, recording ipso and publishing ipso entrants had lower profit growth and lower turnover growth compared to other entrants. Likewise, entrants with melody copyrights had lower profit growth and lower turnover growth than other entrants had. Entrants that had assumed previous roles that provided access to the radio broadcasting system had higher profit growth and higher turnover growth than the other entrants. Lastly, entrepreneurial objectives affected profit growth and turnover growth. Entrants motivated by intrinsic interest experienced lower profit growth while those motivated by desire to control sales of their copyrights had higher profit growth compared to other entrants. However, the turnover growth of these entrants did not differ from those of other entrants. In contrast, entrants driven by a profit motive had higher turnover growth but did not have higher profit growth compared to other entrants.

Table 1. Significant, unstandardized parameter coefficients Ordered Logit Regressions predicting PROFIT GROWTH (with standard errors in parentheses)

Predictor	Model 1		Model 2	
Vertical Integration	1.463	*	1.338	
	(-0.733)		(-0.73)	
Start-up Experience	1.098	*	1.031	
	(-0.548)		(-0.549)	
Recording Ipso	-1.238	**	-1.402	***
	(-0.381)		(-0.393)	
Melody Copyright	-1.656	***	-1.69	***
	(-0.414)		(-0.415)	
Interesting	-1.255	***	-1.364	***
	(-0.37)		(-0.377)	
Control Copyright Sales	1.459	***	1.575	***
	(-0.426)		(-0.435)	
Publishing Entry			-0.722	*
			(-0.364)	
McFadden's R2	0.162		0.173	
Akaike info criterion	2.432		2.417	

Table 2. Significant, unstandardized parameter coefficients
Ordered Logit Regression predicting TURNOVER GROWTH
(with standard errors in parentheses)

Publishing Ipso	-1.105	*
	(0.494)	
Recording Ipso	-1.501	***
	(0.391)	
Melody Copyright	-1.849	***
	(0.422)	
Radio Access	0.475	*
	(0.195)	
For Profit Motive	0.764	*
	(0.365)	
McFadden's R2	0.169	
Akaike Info Criterion	2.396	

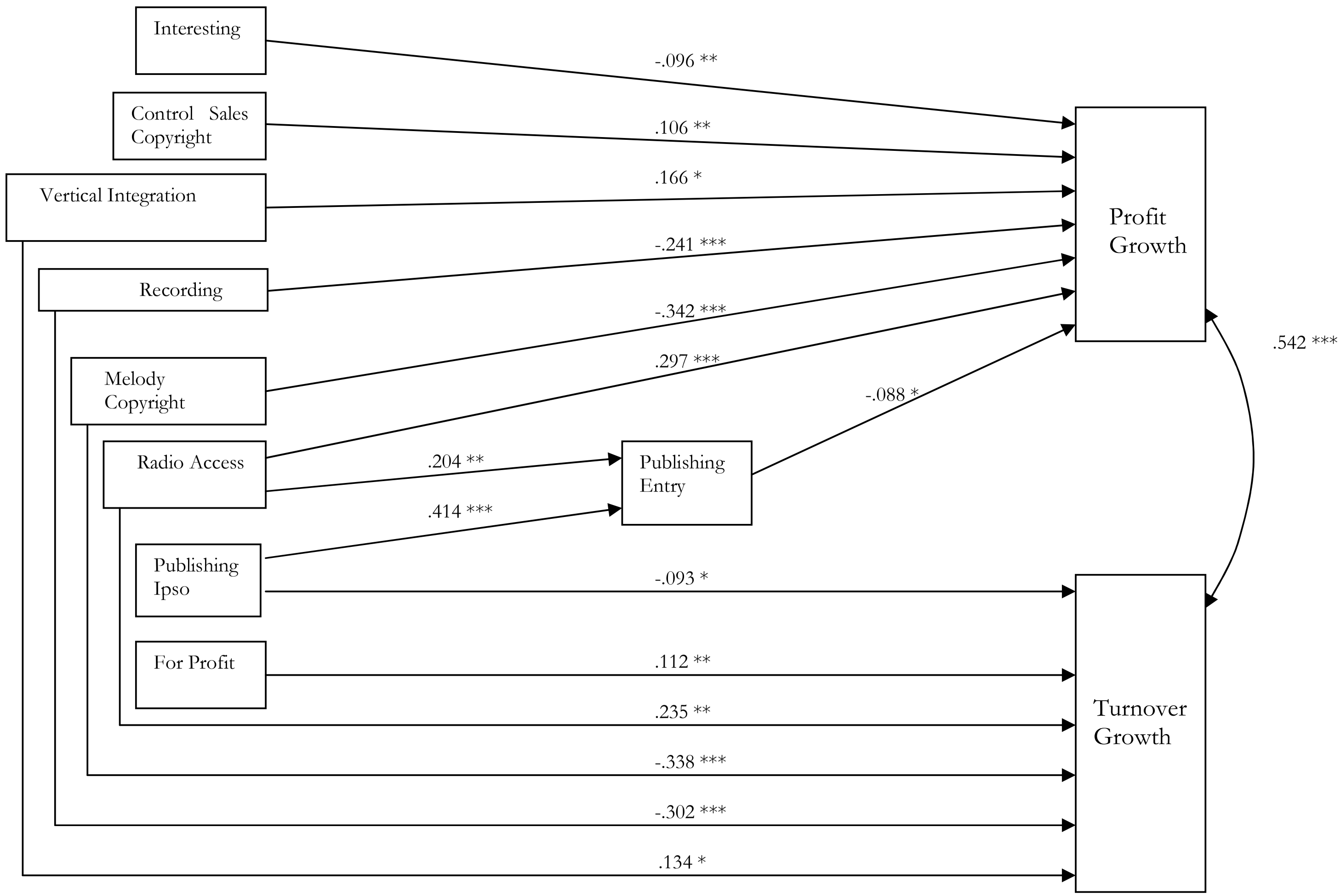


Figure 1. Results of SEM Analysis

Access to the various media outlets showed the largest effects on both profit and turnover growth. Having radio access had the highest total positive effects on both profit growth (0.279 = 0.297 + [0.204 * -0.088]) and turnover growth (0.235). Meanwhile, owning a melody copyright had the largest negative effect on both profit growth (-0.342) and turnover growth (-0.338). Overall, this model showed a good fit to the data, explaining 34% of the profit growth variance and 34% of the turnover growth variance (see figure 1). None of the control variables (age, absolute turnover, and number of employees of the company) had a significant effect on profit and turnover growth upon entry. Goodness of fit statistics and other statistics often reported can be found in table 3 below. A robustness test of the above analyses with the binary profit growth and sales growth variables (POSITIVE PROFIT GROWTH and POSITIVE SALES GROWTH) showed similar results. Other results are available upon request.

Table 3: Figure Captions

Structural equation model showing the standardized coefficients of predictors' effects on profit and turnover growth of respondents entering music publishing, recording and reproduction.

Goodness of fit statistics:	
SRMR	.076
CFI	.966
IFI	.96
TLI	.928
RMSEA	.057
Reduced form SMCs	
Profit growth	.340
Turnover	.342
Other statistics often reported	
χ^2 (37)	26
p	.073
AGFI	.876
RFI	.811

3.4 Discussion

Overall, the results support the view that the entrepreneurial roles and entrepreneurial objectives affect firm performance upon entry into a new industry. The various roles that the entrepreneur has assumed in the past profoundly impacted the profit and turnover growth perspectives upon new entry. Assuming the role of intrapreneur seems to empower the entrepreneur as vertical integration had a positive effect on performance. Although corporate sponsorship was not significant, the general indication is that new entries starting from an existing organizational setting tend to fare better than others. This suggests that legitimacy may be more easily garnered by entrepreneurs in their role as intrapreneur than others because the internal and external constituency may credit them with a higher level of desirability, propriety, and appropriateness. The fact that prior entrepreneurial experience did not constitute a role that was significant for performance upon new entry may remain inconclusive but it was positive and borderline non-significant.

Surprisingly, prior industry experience had a negative effect. It seems counterintuitive that previous experience in the industry lessens one's legitimacy. Specifically, Jones (2001) found that using knowledge acquired during previous employment affiliations proved crucial for effectively establishing and securing legitimacy for new entrants. One possible explanation of this puzzling result is negative selection. Employees who perform well will rise through the ranks of the major organizations. In contrast, employees who do not will quit or be fired, and they are more likely to start their own firms (Hirschman, 1970). The chances of these entrepreneurs-by-default would be even worse if they were contractually bound, as is quite common in the music industries, not to employ the network of contacts they had built in their previous jobs. If such a process occurs, or at least is assumed to occur by significant stakeholders, it could explain the negative relationship between industry experience and legitimacy.

Having assumed roles in the past that yielded relationships with key players in the market improved performance, which is consistent with our expectations. Specifically, access to radio was a key ingredient to success for these 131 firms. In contrast, TV access did little for performance upon new entry, possibly because far fewer songs are played on TV than on radio

Surprisingly, owning one's own copyrights, and therefore presumably being more knowledgeable about upstream inputs, had a negative effect on one's performance. The underlying rationale for starting a new venture that is hardly profitable by itself could eventually function as a leverage to broker more favorable record deals with major record companies (Burke, 1997). However, this explanation seems only applicable to a small minority of very successful artists (Negus, 1992). Another possibility is the notorious oversupply in the cultural sectors of those actors who are upstream to the firms in our sample: the suppliers of artistic input (Menger, 1999; Caves, 2000). Because of this continuous oversupply, legitimacy from having assumed a role that allowed acquainting oneself with supplying industries is not a necessary condition for success in the music industries. Even the least knowledgeable firm can find competent artists to jump at any chance to be published, recorded or reproduced. Moreover, this legitimacy with suppliers, as evidenced by exploiting one's own melody copyright, might negatively interact with one's legitimacy to other stakeholders. An entrant exploiting his own melody copyrights signals to stakeholders that the entrepreneur is an artist and possibly a failed artist. To most non-artists, this signal suggests that the entrepreneur is not commercially inclined and therefore not someone on whom to risk one's scarce resources.

With regard to the entrepreneurial objectives, the results were mixed. The positive effects of financial motivations and the negative effects of non-financial motivations underline the differential impact that entrepreneurial objectives have on performance. Entrants motivated by financial reasons may readily persuade the internal and external constituency of the viability of the new venture. In contrast, entrants motivated by intrinsic interest gain psychological benefits directly from the work itself and can tolerate lower profits. This result may be especially pronounced in the music industry, because as in many other creative industries people need not primarily seek monetary gains. Such entrants - although being involved in a new venture that is very legitimate in their own eyes - may not rate so favorably with internal and external constituencies who do pursue monetary gains. Also, the oversupply of artistic works can be understood as a consequence of this divergence: artists are notorious for overestimating their chances of success and for their willingness to take greater risks compared to other stakeholders (Burke, 1997). Moreover, the results suggest that, apart from the actual detrimental effects of the divergence between legitimacy to self and legitimacy to others, the *perception* of such divergence, by significant stakeholders, may in itself have a negative impact on performance.

This study has a few limitations. We relied on questionnaire data rather than precise financial statements. Also, we had no other sources of information available to verify and triangulate the self-reports of the interviewees. Although ordered outcome variable regressions and a structural equation model based on polychoric correlations partially addressed these limitations, the results still tended to underestimate the effects of the predictors on the outcomes. Still, the significant results we found were sufficiently robust for us to discuss their implications.

3.5 Conclusion and Suggestions for Further Research

In this study we investigated the performance of 215 new entries, initiated by 131 companies active in the Dutch music industry, specifically, entries into three music industries: music publishing, music recording, and music reproduction. We posited that the performances of new entries were linked to the degree of legitimacy that the venture enjoyed in the new industry. We argued that internal and external constituents judged the legitimacy of the new venture not only by evaluating whether or not the *actions* of the new venture are legitimate as is customary (Suchman, 1995), but rather by looking at the past and future of their endeavors. Our results indicate that the past matters; previously assumed entrepreneurial roles differentially impacted performance upon new entry. Also the future mattered; the various entrepreneurial objectives that the entrepreneur had set showed distinct effects. These results suggest that entrepreneurial roles and entrepreneurial objectives serve as *ad personam* markers of legitimacy that the entrepreneur has at his or her disposal to convince the internal and external constituencies of the new venture's desirability, propriety, and appropriateness. Although legitimacy may not be completely malleable, the findings in this study do suggest that the legitimacy of the new venture reflects the entrepreneur's legitimacy (Meyer & Rowan, 1977).

As such this paper nuances the effect of organizational legitimacy on performance. The Mathew effect is still very much embedded in our current understanding of organizational legitimacy; the greater is the legitimacy of a firm the greater the ease to secure additional resources, thereby enhancing its performance. Yet this study directs attention to first considering the type of legitimacy before any meaningful conclusion be reached about its effect on performance. The benefit of the approach in this study is that took a novel perspective on legitimacy; contending that the new venture not only needs to be legitimated to external constituencies, but also needs to meet an internal threshold of legitimacy that justifies to the entrepreneur him or herself the time, money and effort spent on the pursuit of a new entry. This inward looking legitimacy may complement the outward looking perspective that has hitherto dominated the discussion of legitimacy.

Although this paper finds evidence for an association between markers of legitimacy and organizational performance, it does not explicate the mechanism by which these markers convince the internal and external constituency. Such a study could shed light on how legitimacy "*constitutes an asset in sustaining the flow of resources from the environment*" (Hannan & Freeman, 1989: 67). This line of reasoning is also being entertained by the Resource-based View of the firm (henceforth RBV) that suggests that the (initial) endowments of a firm affect performance prospects (Wernerfelt, 1984).

Yet an organization at any given point in time may represent *different* degrees of legitimacy to different groups of stakeholders. No one – not even the entrepreneur – has complete and accurate knowledge of his stock of legitimacy. Especially one would like to investigate how the various markers of legitimacy may elicit risk-taking behavior on the part of certain stakeholders while others may be disinclined to do so. Whereas self-perceived legitimacy justifies risk-taking behavior to the entrepreneur, a resource supplier may not be convinced of the legitimacy of the new venture and as a result decide not to avail resources. Whether or not stakeholders do so depends on the extent to which the characteristics of the entrepreneur serve to make new entry legitimate in the eyes of these stakeholders. By making explicit the multifaceted characteristics of legitimacy, our approach renders the link between organizational legitimacy and performance suitable for a more precise analysis. Actual decisions made by the relevant stakeholders depend on a rough estimate of the amount of acceptable risk that a new venture constitutes, which can be seen as another reading for legitimacy.

4 Competition, Selection, and Authenticity; Payola and the Advent of Rock and Roll

4.1 Introduction

Competition is defined as the "*active demand by two or more organisms or kinds of organisms for some environmental resource in short supply*."[10] In economic terms this means that suppliers are vying for the favorable consideration of their prospective customers by offering the 'best' possible products. Yet who determines which products are the best? And, equally important; how do prospective customers find out what is the best buy before proceeding to the cash register?

This paper posits that understanding the way in which a product's value is determined is a prerequisite for competitive processes. To compete successfully, a firm's products have to be recognized as valuable. As this is the point of departure for analyzing of competitive processes, the concept of the selection system (Wijnberg, 1995; Wijnberg & Gemser, 2000) will be employed to analyze the events that unfolded after the introduction of rock and roll in the US music industry halfway through the 1950's.

The selection system describes the interaction between firms that are in competition with each other and actors that are in the position to affect this competitive process by asserting the value of the products on offer in this market. In a given selection system the latter set of actors is called the 'selectors' and the first set is comprised of the 'selected'. As such, wine critics operate as selectors in the wine industry by im- or explicitly giving ratings to the various wines that are produced by the wine producers who hope to become one of the 'selected'.

For a comprehensive understanding of how the value of competing products is determined, it is important to realize that selectors themselves can be involved in their own competitive process among each other. More specifically, the selected can affect the competitive process of the selectors by allying themselves with particular groups of selectors and not with others. This implies that the survival chances of the selected and the selectors are intricately related and their respective competitive arenas cannot be fully understood in isolation.

The main purpose of the paper is to better understand the strategic opportunities that arise from the mutual interdependence of these competitive arenas. Special attention will be paid to the relationship between the subsequent strategies that are pursued and the ways in which the awareness of the mutual interdependence between selectors and selected affects the value of the goods and services in question.

The cultural industries seem particularly suitable for studying the relationships and interactions between the selectors and the selected. This stems from the fact that within cultural industries the role played by selectors in the determination of value is generally more visible than in other industries, for instance those of lawn-mowers and refrigerators. Some refrigerators are considered to be more valuable than others for the supposedly obvious reason that they can store more food, keep it cold for a longer period of time at less cost, and maybe because they have a better fit with other appliances in the average kitchen. Some paintings, books or movies, on the other hand, are considered to have more value than others because they have qualities that are supposedly harder to determine, such as aesthetic value or, even more problematic, innovation and authenticity. The harder it is to determine the value of individual product characteristics, the more valuable is the necessary knowledge and expertise (Hirsch, 1969; 1972; Peterson & Berger, 1975; Wijnberg, 1995; Wijnberg & Gemser, 2000; Caves, 2000). This in itself increases the value of the services rendered by the relevant selectors, *as selectors*. It not only increases the likelihood of fierce competition among selectors themselves, but also the likelihood that the selected will make an attempt to influence the outcome of the competitive process taking place among the selectors for their own gain.

For the purposes of this paper, the focal interest will be on authenticity. Authenticity can be considered to constitute an essential characteristic of a product; just like acceleration is a product characteristic of a car or like novelty being a product characteristic of a painting or an academic paper. As noted in the above, the selectors determine the value of a product on the basis of their judgment concerning the presence of the product characteristics they think most relevant and therefore also evaluate the authenticity a particular product. Authenticity is of particular importance in the music industry because of the fact that the consumption of music plays such an important role in how people create and sustain their psychological and social identity. Whole genres derive their meaning from authenticity and sometimes their names make explicit references to it (think of 'roots reggae'). As such, the 'production' of authenticity featured prominently in country music (Peterson, 1997).

However, authenticity as a product characteristic has a more profound effect on the development of competitive processes than others as authenticity can also be considered to constitute an essential characteristic of the selector. One needs to be authentic to authenticate. Because of this implicit link between the authenticity of the selectors and the authenticity of products it is posited that the production and evaluation of authenticity have specific ramifications for the way in which the selected and selectors interact.

This paper is organized as follows. In the theory section, the framework of the selection system will be explained in greater detail, focusing in particular on the possible effect that the competition among selectors has on the relationship between selected and selectors, leading up to a differentiation of 4 basic strategic options. Next, authenticity, as a product characteristic and as an attribute of selectors, will be discussed. This is followed by an examination of the practice of payola employing the theoretical perspective developed in the earlier sections. Payola is a term that refers to the offering of money or other incentives in exchange for favorable consideration of a song by the selectors. We will focus upon the way in which record companies competed by allying themselves with radio and TV broadcasters that acted as the relevant selectors at the time. In doing so, we will put a special emphasis on the role of authenticity in the competitive processes at the level of the selected *and* at the level of the selectors.

4.2 Theory

4.2.1 Selection Systems & Competition among Selectors

In spite of its centrality in the analysis of how markets function, the concept of value remains poorly understood. Yet value is the driver of economic behavior; production and consumption patterns are built on the respective understandings of what is valuable. When determining the value of a product, it is necessary to identify the explicit or implicit set of criteria that is employed to arrive at an estimate of the value of a product in comparison with competing alternatives. Sometimes the consumer is able to do this for him/herself, but there are also many situations in which the customer may not be able to arrive at an estimate of product utility, for instance because of the existence of significant information asymmetries (Akerlof, 1970; Nelson, 1970; Darby & Karni, 1973).

The framework of selection systems (Wijnberg, 1995; Wijnberg & Gemser, 2000; Gemser & Wijnberg, 2001) may serve well for the purpose of describing how customers attribute value to a product. Selection systems describe competitive processes in terms of actors who are being selected (the selected) and actors who are doing the selecting (the selectors). In every industry a particular selection system can be identified. The selectors identify which products to take into consideration, and then proceed to evaluate these selected products on the basis of the criteria they deem relevant. Hence customer utility can be seen as the value that the product has to the customer according to the judgment of the relevant selectors. From our definition of selectors it follows that if the evaluation of a particular group of actors, for instance film critics, only predicts but does not influence box office results (Eliashberg & Shugan, 1997), this group does not constitute selectors.

Three ideal types can be distinguished: market, peer and expert selection. The first type is market-selection, in which the final customers are the relevant selectors and the producers are the selected. In this case, customers themselves are able to ascertain the customer utility of a product before proceeding to a commercial transaction. In other cases the customers may have to rely on the vicarious evaluation by others, especially in the absence of clear criteria with which to assess the value of a product. In these instances, the customer takes the opinions of others as proxies with which to quantify the utility of a product. Such is the case in the second ideal type - called peer selection - when the opinions of other producers (peers) form the shorthand description by which customers will judge the perceived customer utility of the product under consideration. A clear-cut case of peer selection is the practice of academic papers being reviewed by fellow academics. If expert selection - the third ideal type - prevails, customer utility is derived from the opinions of a category of persons, who are neither customers nor producers but to whom particular knowledge and expertise is ascribed. As such, insurance companies are rated by Moody's, restaurants by Michelin, and pharmaceutical drugs by practicing physicians. It should be emphasized, however, that the types of selection systems described here are ideal types. In reality, outcomes of competitive processes are often determined by a combination of these types. In some cases, two types of selection, e.g. market and expert selection, can be seen to operate alongside each other; in other cases two or more selection systems operate sequentially. It is posited that in the analysis of any competitive process it is possible to specify what kind of selection system is prevalent, the identity of the relevant selectors, and the identity of the dominant selectors.

It is important to emphasize that the role of selectors is twofold: they are the gatekeepers for the selection system and the jurors of the selection process. Firstly, they explicitly or implicitly identify which firms are valid competitors, thereby effectively distinguishing between 'selected' and 'non-selected' firms. Secondly, they separate winners from losers by attributing much value to the products of some producers and little to the products of others, which is eventually reflected in the price that the customer is willing to pay for a particular product. This is why the common reading of gatekeepers is too narrow and as it is confined mostly to the act of differentiating among the 'selected' and 'non-selected' (e.g. Caves, 2000).

Because the selectors determine the outcome of the competitive process, firms will attempt to win their favor by offering goods or services that are more likely to satisfy the preferences of the consumers than the goods or services offered by their competitors. This is what is normally understood by direct competition. However, firms are also tempted to influence the selectors' judgment in other ways. If a firm is able to get a preferential treatment by one of the dominant selectors so that its products are more readily acknowledged or more favorably rated, its chances to establish a competitive advantage are greatly enhanced. Such a relationship can take various forms: it can take the form of ownership relations, take the form of revenue-sharing schemes or take the form of bribes (Caves, 2000; Conlan, 1994). Such relationships are often deemed illegal or are at least prone to raise the suspicion by the authorities concerned with competition policy.

Besides acting as selectors in other actors' competitive processes, the selectors can be involved in their own competitive processes, as competitors or, in the terminology used here, as selected. It is important to understand that the selectors (in their pursuit of becoming 'selected') are competing with other (potential) selectors connected to the same selection system, for the privilege, and the resulting benefits, of being the dominant selector in that system.

In situations of pure market selection the role of selector brings few benefits to the average consumer, precisely because the other consumers will not be willing to pay for the services of selectors other than themselves. In situations where peer selection dominates, those peers who are more important selectors than others can often reap rewards in the form of increases in in-group status, which can, in turn result in other benefits. Being successful as a selector is most important where there is expert selection by professional experts, who have to earn their living by acting as such. Therefore, the more expert selection is dominant, the more it is likely that the competition between (potential) selectors is fierce. In such instances, alliances between selectors and groups of selected are more likely to be prevalent for the purposes to influence their respective competitive processes because the benefit may be mutual.

This particular strategic option can be understood best as an alternative within a fourfold classification of basic strategies that are available to competitors in a particular selection system: 1) direct competition with other firms by offering products that better satisfy the preferences of the selectors; 2) convincing the selectors that prefer the products of other competitors to change their preferences; 3) supporting the selectors preferring one's products in their competition with other selectors; 4) changing the characteristics of the selection system as a whole so that one's products stand a better chance of being preferred by the relevant selectors. Which strategic option is desirable will of course depend on the resources and capabilities of the competing actors, but also on the extent to which the characteristics of the products, and the preferences of the selectors concerning these characteristics, lend themselves to the pursuit of a particular strategy.

4.2.2 Authenticity & Selection

The word authenticity denotes truthfulness: something or someone is judged as genuine, true to it- or oneself. To authenticate is to establish that this is the case. Although a semantic analysis reveals various nuances, there are essentially two different readings of authenticity. The first and most straightforward sense of authenticity refers to the fact that something is really what it claims to be (in the sense of not constituting a fake or imitation). The second reading of authenticity refers to the fact that something is what it ought to be according to its creator/author. In this second sense, authenticity stands in a peculiar relationship to originality which again has two complementary parts. Originality in the sense of having a clear and direct link to the true originator can render something authentic. Yet originality in the sense of being new, innovative, unexpected, different from the traditional essence of the particular category has a different meaning. The critical issue here is perception, because authenticity as a product characteristic cannot be operationalized without specifying whose perception will determine and thereby authenticate its presence.

If authenticity is a significant determinant of value, the perception of the relevant selectors will be the perception that counts. Moreover, authenticity as a characteristic of a product or of a producer – apart from how it is defined and certified – is not a given and can vary over time and from one industry to another.

If authenticity features prominently among the characteristics of a particular product, the selectors perform their twofold role by firstly denying inauthentic products/producers entry to the relevant selection system and secondly by determining the value of products by establishing the level of authenticity along with the levels of other significant product characteristics that are present. It should be clear that, as much as one attempts to distinguish the two, authenticity of the product and authenticity of the producer are intimately related, especially in the sense that certification of the authenticity of the producer can lead to starting out from the assumption that the product has authenticity and vice versa. But this relationship goes further. Particular to authenticity is the fact that the 'true to self' aspect specifically touches upon the relationship between producer and product; the product is authentic and the producer is authentic if the producer could not have produced something different without being untrue to her/himself and the product would be 'false' if produced by someone else. Besides this relationship between the authenticity of the product and the producer, there is another relationship that is of even greater interest for this paper, the one between, on the one hand, the authenticity of product and/or producer and, on the other hand, the authenticity of the selector.

Authenticity is similar to innovation in the sense that it is something that can only be determined with knowledge of the product category and its history. A stylistic innovation, for instance, can only be adequately evaluated with sufficient knowledge of the discourse of art history (Schapiro, 1953; Gilmore, 2000; Wijnberg, 2004). Because the average consumer usually lacks sufficient knowledge of these matters, a higher relative importance of authenticity or novelty will make it likely that the relevant selection system will evolve or has evolved away from market selection and towards peer and, especially, expert selection. The relevant selectors will have to know more than the average consumer to determine whether the product is innovative or authentic. An interesting difference appears at this point between novelty and authenticity. The art-historian who certifies a particular artist or movement as innovative does not necessarily have to be an innovator in his/her own field to be convincing and successful as a selector. However, someone who certifies the authenticity of someone or something has to be perceived as authentic him/herself to be a successful selector.

As such, it is likely that when authenticity is relatively important as a product characteristic, the selectors will more often be peers or experts. Especially when selectors earn their living as professionals by providing implicit or explicit product appraisals, this may give rise to potential conflicts of interest. Precisely these selectors have to overcome suspicions that they represent the interests of the highest bidder, and thus are inauthentic as selectors, to compete successfully with other (potential) selectors. This is the case in, for instance, the pharmaceutical industry, where the preservation of professional neutrality is a cause of concern (Conlan, 1994). For selectors of products where authenticity is an essential characteristic, their authenticity is such a fragile asset that even when it is merely questioned, the reputation of the selector can be severely damaged. As we shall see below, this fact can have important consequences for the interaction between, on the one hand, the competitive processes within a selection system and, on the other hand, the competition between (potential) selectors.

4.2.3 Authenticity in Music

Wijnberg and Gemser (2000) showed how the relative importance, as a product characteristic, of novelty per se came to dominate all other product characteristics in the selection systems of the modern visual arts, after the success of the Impressionists. Similarly, the relative importance of authenticity increased during the modern period in other cultural industries, and very particularly in music, both classical – think of the success of 'authentic' performances of especially baroque music – and popular – many popular artists use closeness to their 'roots' as a powerful sales argument, whether their music is hip-hop (McLeod, 1999) or country (Peterson, 1997). In her 2003 song 'Jenny from the block', Jennifer Lopez explicitly acknowledged the importance of being authentic, singing: '*no matter where I go, I know where I came from (from the Bronx!)'*.

It should be emphasized that in this last example authenticity does not mean original or innovative or rebellious but nothing more than the authenticity of the link between producer and product that has been described in the previous section like Jenny taking her block with her when she goes singing. In most cases where authenticity is of importance as in the case of Rock and Roll - as we will describe below - authenticity also refers to the authenticity of an artifact as an expression of a particular ideological position or at least socio-cultural stance. However, for the purposes of our argument it is of little significance what kind of authenticity is under consideration; the crucial question is how important authenticity is as a product characteristic and how this product characteristic is perceived and determined.

The main reason for the increase in the relative importance of authenticity as a product characteristic for many cultural products seems to lay in the fact that consumption of cultural products can function as a marker of identity. While in previous periods most persons were not expected to question their personal or group identity, or the relationship between the two, the modern period has often been characterized by the problem of establishing and maintaining one's identity, both as a person and as a group member. A medieval peasant, a priest, or a baron, knew not only who he was but also what kinds of consumer behavior was expected of (or allowed to) him. In the modern world one's identity is most intimately linked to the *decisions* about consumption one is *perceived* to take, and especially decisions regarding the consumption of cultural products are perceived to reflect upon one's psychological and social identity (Bourdieu, 1984; DiMaggio, 1987; Campbell, 1987). Among cultural products, the consumption of music is the most powerful marker of identity especially for adolescents and subsequently young adults incidentally still represent the largest segment of demand for recorded music. The consumption of music in these groups is so central that they significantly impact the consumption of other products, such as clothing (Dolfsma, 1999).

Precisely this link between music and identity increases the importance of authenticity, because the authenticity of one's identity will become linked to the authenticity of the music that one consumes and the musicians making it (Peterson, 1997; McLeod, 1999; Clay, 2003). This linkage only increased in strength when the reputation of popular musicians came to be based not only on their ability to express themselves in terms of performance but also in terms of voicing their personal ideas and beliefs (Frith, 1996). Whenever the authenticity of an artist became questionable, in an artistic sense but also in an ideological sense, problems arose with the (self-) identification of consumers. Examples range from the blatant non-singing by the pop vocal duo Milli Vanilli to the belated admission of being homosexual by superstar George Michael. Recently, the rock-band Metallica shocked fans by suing the peer-to-peer file sharing network Napster, which like Metallica itself was deemed to be an icon of the anti-establishment. This, in turn, makes it only more important that the relevant selectors certifying authenticity in music are perceived as authentic themselves. The case of payola, which will be presented below, illustrates the economic consequences of the relationship between selection and authenticity.

4.3 Payola & the Advent of Rock and Roll

4.3.1 Payola

Because the music industry is an industry marked by overproduction, consumers will only come to know a small fraction of the products on offer. Hirsch (1969) referred to this as '*the filtering process by which records are preselected for public consumption*'. The importance of this filtering process is the main reason for the prevalence of the practice of 'payola', offering money or other incentives in exchange for favorable consideration of a song by the actors involved in the filtering process. Caves (2000) gives a broader definition of payola as '*the bribe paid in order to influence a gatekeeper's choice among competing creative products*'. Taking an institutional approach to the issue, Coase (1979) regarded payola as an economic mechanism, which enhanced rather than diminished customer welfare. In essence payola enabled a pricing system thereby avoiding the waste of resources that would accompany alternative solutions.

The term payola is best known in connection with the upheaval in the 1960s about payments to radio DJ's. The term itself, however, originates from the vaudeville era, when music publishers started paying popular performers or bandleaders to perform a song in theatres and music halls, in the hope of an increase in the demand for sheet music (Segrave, 1994; Hyland, 1995; Brewster & Broughton, 1999; Caves, 2000). Isaac Goldberg, a famous songwriter in the first decennia of the 20th century, noted that the competition for getting a song performed by a well-known artist became so intense that there were '*simply not enough singers to go around*'[11]. It became an elaborate business, including secretly paying waiters to engage in a sing-along with the performer on stage or monetary incentives being given to the members of the audience to clap their hands with the intent to trigger a bandwagon effect throughout the concert hall (Segrave, 1994;

Caves, 2000). Although being by and large a lawful activity, payola eventually ran into severe criticism and was dubbed by entertainment magazine *Variety* (1915) as 'payment evil'[12].

Yet it was not until the advent of Rock & Roll in the 1950s that payola became the object of a widely publicized Congressional inquiry that ended its legality. The major difference was that this time the emphasis of the public scrutiny had shifted from the givers to the takers of payola (Segrave, 1994). Whereas before a hefty fine was levied when a music publisher was found to have paid for airplay, now the DJs themselves were subjected to criminal investigations (Segrave, 1994; Brewster & Broughton, 1999).

4.3.2 The Music Industry & the Advent of Rock and Roll

The music industry in the late 1940s resembled an oligopoly with a few dominant firms, the so-called majors: Capitol, Columbia, RCA, Victor, and Mercury. There were smaller firms, but they mainly focused on smaller niche-markets and did not present a threat to the majors. Not surprisingly, the industry concentration rates were at an all-time high, with the market share of the largest four companies, the so-called C4 ratio, reaching 89% in 1949 (Peterson and Berger, 1975). The most important broadcasting medium was radio and this industry was also highly concentrated, with four national networks catering to most of the listeners. All the majors had ownership relationships with leading media: Columbia was aligned with CBS, Victor RCA was affiliated with NBC, Decca was linked with MCA and Capitol was connected to Paramount Pictures. Therefore they could give a song heavy rotation if such was required. In 1948, 70 million radios were in use in the United States while the TV audience was estimated to reach about an eighth of that figure (Sanjek & Sanjek, 1991). The four national networks relied on more or less similar formats to their listeners. The consumers of popular music were considered to constitute a fairly homogenous market that was fairly predictable (Peterson and Berger, 1975).

This situation started to change in the 1950s and the sum of those changes irrevocably changed the landscape of the music industry (Peterson, 1990). At first, however, developments were gradual and modest. Because of the large difference in scale and scope, the majors and the smaller independent firms, the so-called 'indies', seemingly formulated their strategies in disregard of the behavior of each other. The most significant developments affecting the business environment were: a) changes with regard to broadcasting media; b) changes with regard to the characteristics of the audience.

In the early 1950s, television was quickly gaining popularity; exceeding 20 million sets in 1952. Large advertisers were quick to respond to the growth of this new medium, by shifting their advertisement expenditures accordingly. Peterson and Berger (1975) reported that between 1948 and 1952 the income from radio broadcasting fell by 38%. As a direct result, many commercial radio stations got into dire financial plights as they saw their income from advertising quickly diminished (Hirsch, 1969). Yet the number of radio stations increased during this period as the Federal Communications Commission (FCC) started to grant many new licenses to broadcast, allowing the number of radio broadcasters to double in the four years following 1947 (Peterson, 1990). Most of these new radio stations were local and specialized themselves in particular types of music and segments of the audience (Sanjek & Sanjek, 1991). Peterson (1990) reported that many of these new broadcasters had little financial resources; greatly restraining the scope and scale of their activities. The radio stations were forced to resort to the cheapest form of broadcasting: playing records on air (Peterson & Berger, 1975).

There were big changes taking place in the market as well. The income gap between black and white narrowed, benefiting the largely neglected market for rhythm and blues (Sanjek & Sanjek, 1991). But even more important was the growing segment of teenagers that would reach its height at the peak of the baby boom in the early 60's, who by this time had become avid consumers of music. Although they had less purchasing power in comparison to the adult segment, they were indispensable for the market for music singles (Clarke, 1995). Additionally, teenagers seemed to increasingly adopt a group identity that set them apart from – and some would say even in opposition to - the adult population. This development coincided with a greater awareness and appreciation of the songwriter among the record buying public (Clarke, 1995). This not only provided an additional reason for worry about teenage behavior (think of movies such as the 1955 picture Blackboard Jungle about an unruly high school), but also translated into an additional demand for role models and identity-markers with whom the teenagers could identify themselves. New forms of popular music, principally Rock & Roll, fulfilled this demand and turned the market from being largely homogenous to becoming increasingly heterogeneous (Peterson and Berger, 1975).

Whereas the majors were quick to recognize the importance of television as a new broadcasting medium, they largely overlooked the changes with regard to the demand side (Sanjek & Sanjek, 1991; Denisoff, 1975; Peterson and Berger, 1975). By this time the majors had largely completed their strategy of vertical integration in the music industry. They controlled the whole value system from the artist upstream to distribution downstream, and increasingly thought that the market was malleable (Peterson and Berger, 1975). As a result, the majors continued to formulate their strategies with regard to radio and television all based on the assumption of a homogenous audience. Also because of their ownership ties to the larger radio networks, the majors disregarded the heterogeneity that was developing in local radio (Peterson and Berger, 1975). Encouraged by the success of television shows like Dick Clark's American Bandstand, the majors became convinced that the television was the new platform to market their established stars, while hardly tapping into the emerging genre of Rock and Roll artists (Sanjek & Sanjek, 1991; Denisoff, 1975).

The smaller record companies, also called the 'indies', followed a very different strategy. Whereas there were as little as half a dozen active record companies in 1941, this number grew to 1,500-2,000 in the 1950s, because of the diffusion of new and cost-effective technologies (Segrave, 1994). As their limited means put television out of reach, they were aggressively pursuing exposure of their new songs via the increasing number of local radio stations (Peterson, 1990). In doing so they, the indies, did what their larger rivals had done before them: paying money to radio DJs in exchange for airplay of their Rock & Roll songs (Peterson & Berger, 1975; Coase, 1979). Precisely because the smaller radio stations were mainly playing records instead of live performances and because they specialized in particular genres and targeting specific audiences, they proved to be very attractive media for the new genres of rhythm & blues and later Rock & Roll that the independent record companies were pushing (Peterson & Berger, 1975). Having their music played on local radio yielded two specific advantages to the independent record companies. Firstly, they were able to manage their own local distribution networks, in effect sidestepping the competitive advantage that the majors enjoyed at the national level. Secondly, these local radio networks could provide a springboard for gaining national popularity of their songs, because a record that was a hit with the audience at one station was likely to be picked up by another station.

The local DJ proved to be the crucial actor in this process. The DJs at the local radio stations enjoyed much greater autonomy than their counterparts in the radio networks, which were largely controlled by the majors. The local DJs vied to be the first to introduce new, original *and* authentic, music to their audience. As Brewster and Broughton (1999) report, much more than the DJs at the national networks, these local radio DJs identified themselves with the music they played, almost as if they were themselves musicians. At the same time they manifested themselves more and more explicitly as vocal and authentic representatives of their audience. Both aspects of the new role of the DJ were particularly visible or, rather, audible, in the case of the DJs associating themselves with the Rock and Roll movement (Brewster & Broughton, 1999). This was exemplified by the case of Alan Freed, who was also promoting Rhythm and Blues and Rock and Roll music by organizing dance events. At one such event in Boston, riots broke out and arrests were made. Because the event was widely covered in the media a direct result was that advertisers became weary of becoming associated with Rock and Roll. This event did initially constitute a setback for the Rock and Roll movement as several radio stations even chose to ban Rock and Roll all together (Sanjek & Sanjek, 1991). At the same time, however, the local DJs became increasingly legitimated as authentic representatives of the anti-establishment in the eyes of the Rock and Roll fans (Segrave, 1994; Brewster & Broughton, 1999).

During the 1957-58 television season the majors realized that TV had not yet matched radio's ability to induce record sales when the popularity of their supposed 'affable' singing personalities on TV dwindled (Sanjek & Sanjek, 1991). Although American Bandstand proved to be a great success with 67 ABC affiliates airing the show in 1957, it hardly played any new releases on the show, limiting the chances for new music to be introduced to the public (Segrave, 1994). Guests that frequented the show were arrived artists like Fabian, Frankie Avalon, and Chubby Checker, not Elvis Presley or Buddy Holly. There was a firm belief among the majors, however, that TV would be the dominant platform for releasing music in the future. But things proved to move slowly and Peterson (Peterson, 1990) reported that in 1948 the radio stations played more new music than did the TV stations 10 years later. Sanjek and Sanjek (1991) explain that '*Clearly, television was not* *a medium to which people looked for their popular music*'. Contrary to the expectations of the majors, the 'death of radio' did not materialize.

In the meantime, the new independent record companies thrived and as a result the volatility in the music industry increased dramatically. Accordingly, Peterson and Berger (1975) reported that during the years 1955 to 1962 the market share of the largest 4 firms, measured with the C4 concentration ratio, dropped from 74 percent to a mere 25 percent.

To reverse this trend, the majors basically had four strategic options: 1) they could compete with the successful indies by developing and marketing Rock and Roll that would please the teenager audience; 2) they could court the local radio DJs by bribing them into favoring their songs instead of those offered by the indies; 3) they could start to undermine the power of the local radio DJs who had proven to be so crucial for the realization of the success of the indies; or 4) they could attempt to change the ways in which the tastes of the main (teenager) audience was constructed, so as to make them dislike rock and roll. In fact the majors followed all of these strategies simultaneously.

Even if hesitantly at first, they started to develop their own Rock and Roll artists as well as buying successful artists, such as Presley, away from the indies. They also started to pay more attention and more money to local radio stations and, especially, DJs. At the annual Deejay Convention in 1959, the majors went at great length to comfort the DJs and this even included the provision of escort services (Segrave, 1994). More salient, however, was the vigorous pursuit of the third option aimed at undermining the power of the local DJs who had allied themselves with the indies (Coase, 1979). To do so their prime objective was to eradicate the DJs' claims of authenticity as representatives of the Rock and Roll movement and as representatives of rebellious youth choosing on the basis of its own taste. The prime tool to achieve this objective was to persuade the lawmakers and politicians to look into the subject of payola.

The major record companies embarked on an extensive lobbying campaign directed at Capitol Hill claiming that the practice of payola severely limited their chances of commercial success. For different reasons, Congress was also keen on curbing the influence of the DJs, who were seen as the pushers of Rock & Roll (Coase, 1979). Spurred by recent riots at dance events, the establishment was more willing to put an end to the spread of 'bad music' than to rid the industry of supposed malpractices (Brewster & Broughton, 1999; Coase, 1979). As a direct result of the hearings, there was tremendous public outcry about the practice of payola. But more importantly: not only was the establishment upset, the Rock and Roll fans felt disappointed in their genuine belief in the honesty of those associated with the music: the artists, the record companies and especially the DJs. The explicit payments made to the DJs were testimony of the fact that Rock and Roll was not a genuine underground movement; on the contrary it thrived on capitalist practices! Blatant denials of the practice hardly fared better than DJs trying to rationalize their actions. Tom Clay, a prominent DJ in Detroit, explains the practice in almost Coasian terms: *'But it is all right for a man to put down $200 and leave a record for a deejay. If the deejay honestly thinks it is good, then he is justified in taking the $200 because, after all, that money is an investment for the record company. If the deejay turns down the record, the $200 is well spent. It saves the company money- they won't go ahead and make 10,000 records.'*[13]

What had been a tax-deductible expense for years was quickly outlawed shortly after the finish of the Congressional hearings and payola was banned by law in 1960 (Hirsch, 1969).

Clearly the payola hearings affected the indies much more in comparison with the majors, although they both had engaged extensively in payola. Yet when suspected of fraudulent practices, the majors were easily discharged or were able to strike a preferential deal. For instance, RCA agreed to openly declare not to engage future payola practices, without having to admit it had ever done so before (Segrave, 1994). This led Segrave (1994:100) to state that '*[m]ainly it was Rock and roll, small record companies and deejays especially, who came under the gun. Lost or deliberately left out in the shuffle were […] major labels. The greater one's position in the establishment, the more likely one was to get a cursory or nonexistent look.*'

Keen on avoiding any hint of favoritism by the DJ after the scandals that were revealed during the Congressional hearings, the radio stations quickly adopted the Top 40 format because of its largely 'scientific' manner in which records were selected (Hirsch, 1969), which contrasted favorably with the corruptible practices of the DJs (Brewster & Broughton, 1999). The Top 40 format was structured around giving airplay to songs in accordance with their representative share of over-the-counter sales at the retail store.

In the years directly following the payola hearings, Rock and Roll had lost a lot of its appeal, which showed in the number of Rock and Roll records sold (Peterson and Berger, 1975). The majors gradually increased their market share to the detriment of the market share of the indies, who were very dependent on Rock and Roll for generating revenue. In spite of its declining popularity, the majors were keen to invest in the Rock and Roll genre through the acquisition of smaller independent records labels, by buying artists away from the indies, or by developing their own stable of rock and roll artists. As not all radio programs were formatted on the basis of the top-40 and new songs also needed an outlet on the air, the majors set out to contract 'independent' pluggers, a loosely defined network of agents with established relationships with the radio stations, for 'promotional activities'. Millions of dollars were allocated by the majors to accommodate this form of 'legal payola' (Caves, 2000). Furthermore, the majors developed what was referred to as a 'buckshot theory' of releasing music:

producing a large quantity of new releases in the hope that two or three out of 10 releases would attain commercial success (Denisoff, 1975). This strategy effectively set in motion a crowding out effect as the radio stations could only consider three to four new albums each week (Vogel, 1998). The independent record labels could not afford these costly strategies and were consequently forced to support just the releases they thought would make hit singles rather than supporting a diversified portfolio (Denisoff, 1975). Thus by the time Rock and Roll regained popularity in 1962/3, the majors had such a firm grip on the genre that they could fully profit by advertising popular artists, like Elvis Presley.

4.4 Discussion

In this section we will discuss the case of payola in terms of the theoretical framework presented earlier in this paper. We will focus on the relationship and interaction between the selected and the selectors and give special attention to the role that authenticity played.

We started examining how payola was defined in the extant literature. In terms of our framework payola should be understood as incentives, monetary or otherwise, offered by particular selected to the selectors in order to persuade them to favor the products of these selected relative to the products of others. Given the twofold role of selectors, favoring specific selected can mean that these selected are allowed more effective entry to the selection system than they would have been enjoying otherwise, or that the products of the selected are rated higher than would have been the case if the selectors had evaluated them in disregard of the identity of the producers. In the course of the twentieth century it became apparent that, with regard to the products of the music industry, the most effective selectors were the persons making decisions about which records were broadcast by the media (Rothenbuhler, 1985; Rothenbuhler, 1987; Sanjek & Sanjek, 1991; Segrave, 1994; Caves, 2000).

Although TV sales did enjoy tremendous growth in the early years of the 1950s, the forerunners of the VJs did not replace their counterparts on the radio as the dominant selectors in the music industry. People still largely based their musical taste and purchases on what they had heard on the radio (Sanjek & Sanjek, 1991). Within radio itself a dichotomy could be observed. On the one hand, there were the DJs at the established radio networks who like their counterparts at the TV networks - did little to accommodate the changes that had been taking place in demand. On the other hand, there were the DJs at the local radio stations who had been quick to pick up and at times even encourage these changes in demand. The result was that a feedback-loop ensued in which the influence of those DJs increased who seemed best to represent the tastes and mood of the audience. It is important to emphasize that although the tastes of the audience played an important role in this process, the radio DJs were the significant selectors as the listening audience who depended on the DJs to select for them. The reason why these DJs could so effectively act as selectors was based in large part on the fact that their audience wanted music they could find authentic, as a foundation for their self-image, as individuals and as members of the group. To certify authenticity as a product characteristic, the local radio DJs used their own authenticity. With their rebellious attitude they could be trusted to select music that would rock the establishment.

The very reason why the majors had linked up with radio and TV networks was that, by having ownership relationships with the selectors, they hoped that they could favorably influence the competitive process. Subsequently, they could give a song heavy rotation almost by means of corporate order. The indies lacked the means to copy this strategy and resorted to allying themselves with selectors that were not bound to the majors: the local radio DJs. The most effective way to do so was by providing (mostly small-scale) payola to these actors. In the second half of the 1950s, it became clear that the indies had got a lucky break, because they and not the majors had been able to ally themselves with the most significant selector of the time: the local disk jockey. In short, the majors had grossly miscalculated the effect of TV as an effective medium for introducing new music to the public.[14]

The effect of the alliances with the selectors was directly visible in how the respective market shares of the majors and the indies developed. The market share of the indies saw unprecedented growth; the majors, on the contrary, saw their market share tumble as they had placed their bets on the radio and television networks in stead of on the dominant selectors.

As described in the previous section, the majors had four strategic options; Reformulated in terms of our theory: 1) they could try to produce rock and roll music that was more in line with taste palate of the dominant selectors at the time: the local radio DJs; 2) they could try to ally themselves with the dominant selectors, by paying (bigger) bribes to the local DJs, thereby changing the preferences of selectors; 3) they could make an attempt to undermine the effectiveness of the local radio DJ in his role as a selector of music, or 4) they could attempt to change the relevant selection system altogether.

While all strategies were followed, not all were equally effective. The option of changing the selection system by betting on TV rather than radio may have been a viable alternative in the long run; in the short run it had proven disastrous. The third strategy proved the most effective, at least in the short run. The majors knew that DJs had one Achilles heel: their authenticity. Being the selectors of authentic Rock and Roll music, the local DJs had to present themselves as the voice of the rebellious Rock and Roll spirit. When the majors had succeeded in convincing the lawmakers to investigate payola, it became painfully clear during the hearings that followed that the local DJs were not authentic. In the eyes of the Rock and Roll fans, the shame was not in the supposed illegality of the acceptance of payola. On the contrary, the local DJs were just pawns in a capitalist game, being solely motivated to play records on air because of monetary incentives rather then picking records in the spirit of Rock and Roll.

In this way the majors were able to reverse their earlier strategic mistakes. By undermining the authenticity of the dominant selector, the majors in fact turned a valuable asset in the hands of the indies – their strong ties to the local radio DJs - into a liability. More precisely, by interfering in the competitive process among selectors the majors destroyed the competitive advantage of those selectors that had allied themselves with their rivals, the indies. This in turn significantly reduced the competitive advantages held by the indies themselves. In fact, by incapacitating the local radio DJs in their function as the dominant selectors they bought themselves time; time to effectively pursue the first and second strategic options; developing their own Rock and Roll portfolio as well as allying themselves with the dominant selectors. Furthermore, the adoption of the Top 40 format in radio broadcasting, both at the local radio stations as well as at the national networks, played into the hands of the majors as they had the benefit of having substantial marketing budgets and superior distribution channels at their disposal to promote a song (Kretschmer, Klimis & Choi, 1999). Additionally, being able to increase the size of the audience was of increasing importance for a DJ's career as this determined the revenue stream from advertising (Brewster & Broughton, 1999). Therefore, aligning oneself with one of the majors, for the DJ would seem to the safest bet in this respect.

As a direct result of the strategic actions taken by the majors it is hardly a surprise that at the time that Rock and Roll was to reappear in the charts, the majors were able to profit greatly at the expense of their less fortunate rivals, the indies. Consequently, the majors were able to regain their market share that they had lost to the indies in the preceding years.

Yet as long as the individual careers of the industry's executives are evaluated against being able to produce chart potential, trade picks and eventually chart positions (Peterson & Berger, 1971), the incentives to provide payola, in its most straightforward sense, is likely to resurface time and again, as an instrument to influence the selectors (Caves, 2000). And although the selection of the Top 40 was supposedly tamperproof, sales figures were still often the direct result of substantial bribery practices paid directly to the retailer (Hirsch, 1969).[15] As a matter of fact, Chancellor Media, the biggest broadcasting company in United States, was reported to have cashed 25 million US$ for pay-for-play contracts as recently as 1998 (Taylor & Schiffman, 1998).

4.5 Conclusion

The case of payola has demonstrated that the option of allying oneself with one group of selectors or discrediting another group of selectors allied with one's competitors can be an effective strategy. The desirability and feasibility of this strategy could be explained by the role that authenticity played, as a product characteristic and as an attribute of selectors. In the 1950s the indies had been able to ally themselves with the dominant selectors at the time: the DJs at the local radio stations. The majors responded by questioning the authenticity of these radio DJs, as selectors, by accusing them of accepting payola, and destroying their credibility as the purveyors of authentic music. This, in turn, had severe repercussions for the competitive position of the indies who were allied with these DJs and allowed the majors to regain market share.

Yet, one note of caution needs to be heeded here. Evidently, the majors also pursued other strategies and it is therefore impossible to counterfactually test how effective the option of discrediting the dominant selectors would have been in isolation. However, the case provides sufficient evidence to support the proposition that pursued strategy played a significant part in the competitive victory of the majors. Thus, the case strongly suggests that once dominant incumbents can quickly loose markets share when investing in a new selection system that turns out not to be dominant. Generally this option of sidestepping the current selection system by attempting to erect a new one, would have been a much more attractive alternative to outsiders as has been evidenced by the members of the Impressionist movement (Wijnberg & Gemser, 2000). However, in most cases these actors will not have the capabilities to pursue this option successfully. Dominant incumbents generally have assets that are well adapted to the current selection system and be loath to risk the value of these assets (Chandy & Tellis, 1998). Therefore these actors would be unlikely to pursue the option of changing the selection system. Yet the case of payola proved a chance per se to examine such a situation for it was one of the rare events that incumbents with strong ties to the dominant selectors traded these relationship in favor of what they mistakenly thought to be the newly emerging selection system. Yet striving to regain lost territory proved cumbersome once the ties with the dominant selectors had become severed or were non-existent.

The framework of the selection system has proved particularly useful to understand this case because it allowed us to analyze more systematically how the competitive process in the music industry changed in the course of the 1950s, to separate the roles of the DJ as a selector and as one of the selected in his own competitive process, and to highlight the particular importance of authenticity for the nature of the competitive process.

The line of argument of this paper is of course applicable to other cases concerning products where authenticity features prominently among product characteristics. In a broader sense, the argument can be considered to be an example of a systematic analysis of the interaction between two different sets of actors who are linked by selected-selector relationships.

Finally, the argument has interesting implications for other theoretical approaches, such as population ecology. Population ecologists and institutional theorists alike have stressed the importance of legitimation processes in the formative years of an industry (Hannan & Carroll, 1992; Aldrich & Fiol, 1994). A new industry effectively implies the production of new products, entry of usually new competitors, and the emergence a new selection system, including a set of selectors who define the set of most significant product characteristics on which a verdict can be made about the value contained by the competing new products. Rao (1994) showed how firms in a young industry could attain a competitive advantage by engaging effectively in the competitive process in which the early selectors legitimize their own position which in turn led to the articulation of the most significant product characteristics. He illustrated this by showing how yardstick competitions among selected, led to the articulation of criteria in the early automobile industry.

Moreover, as industries mature not only the composition of the set of selected - or the firms in the industry - may change, but also of the set of selectors. Changes in this set may resemble what Hannan and Freeman (1977) refer to as 'environmental change'. Shifting alliances between particular groups of the selected and particular groups of selectors, could explain much of the longevity or mortality rates in the industry and could prove a viable avenue for future research.

5 From Resources to Value and Back

5.1 Introduction

The Resource-Based View of the firm (henceforth RBV) is arguably the most influential theoretical perspective within the field of strategic management today. Recently, however, the RBV as a theoretical framework has been the object of much criticism. It has been said to be 'tautological' (Priem & Butler, 2001a), missing the credentials for becoming a theory (Priem & Butler, 2001b) and providing but a partial explanation for competitive heterogeneity (Hoopes, Madsen & Walker, 2003). In this paper an attempt is made to repair two fundamental problems of the RBV; one dealing with how resources are defined and one dealing with the proposed underlying mechanism explaining how resources, singly and in combination, bring about a competitive advantage.

The first problem pertains to how resources are defined. So far the RBV has produced a myriad of proposed categories, which has not only made it difficult to compare the results of other RBV-inspired studies but also to compare them with those stemming from other approaches, such as transaction cost theory (Hoopes, Madsen & Walker, 2003). Although most proposed categorizations were implicit or explicit attempts to distinguish among superior and inferior resources, they rarely produced criteria with which the value of resources could be ascertained. Barney's (1991) VRIN criteria that have manifested themselves as the de facto standard for measuring resource value have been deemed flawed on several accounts, leaving the value of resources a contentious matter (Priem & Butler, 2001a).

The second problem concerns the mechanism by which resources facilitate a competitive advantage. The premised causality becomes problematic when deducing a competitive advantage from heterogeneity in the factor market, thereby neglecting the product market in which the firm is to attain and sustain the actual competitive advantage (Bowman & Ambrosini, 2001; Priem & Butler, 2001a; Priem & Butler, 2001b). By doing so, most RBV studies exclude from the analytical framework what may be the single most important factor explaining how a competitive advantage may come about: the demand side (Hoopes, Madsen & Walker, 2003; Priem, 2005; Sirmon, Hitt & Ireland, 2005).

Although in this paper we will deal with these problems integrally, it is important to note that these problems are conceptually different to understand the objective of this paper. Employing institutional theory we define three sets of criteria 'ante rem', 'in re', and 'post rem' - that allow resources to be evaluated on their functional role in competitive processes. These criteria allow distinguishing among inferior and superior resources measured as the extent to which they enable a firm to attain and sustain a competitive advantage. Thus we make an explicit attempt to address and repair these two fundamental problems embedded in the conceptual framework of the RBV by redefining how resource value can be measured and by making more plausible how resources can generate a competitive advantage.

In doing so, we position ourselves firmly within the RBV tradition (i.e., using resource heterogeneity to explain performance differentials) but only after fundamentally reconsidering the relationship between resources and value. Following recent studies (Sirmon, Hitt & Ireland, 2005), we emphasize the importance of explicitly linking the factor market to the product market in order to arrive at a full appraisal of how the firm may use resources to its advantage. Furthering this line of reasoning, we employ these criteria to enhance the understanding of the extent of resource specialization among competing firms, the (un)bundling of resources and the boundaries of the firm.

This paper is organized as follows. First, we examine resources in the framework of the RBV. We discuss how assets serve to create, capture and protect value. To remedy the perceived shortcomings of the RBV, we propose a trichotomy of criteria to determine the value of resources in competitive processes. Next, we use this classification and venture into the theory of the firm, by addressing the rationales underlying the bundling of resources (Wernerfelt, 1984). This discussion yields a number of propositions concerning: 1) specialization among different firms with regard to their resource portfolio; 2) the conditions under which the value of resources becomes readily observable; 3) the tradability and the mobility of resources, and; 4) the sustainability of performance differentials. This paper concludes with some final remarks and suggestions for further research.

5.1.1 From RBV to Value

The basis tenet of the Resource-Based View is that a firm can attain and sustain a competitive advantage on the basis of superior resources (Penrose, 1959; Wernerfelt, 1984; Dierickx & Cool, 1989; Barney, 1986; Barney, 1991; Peteraf, 1993). Consequently, profit differentials can be explained by the resource heterogeneity of competing firms.

By providing an inside-out theory of the firm, the RBV offered an attractive alternative for approaches that favored environmental causes as predictors of competitive heterogeneity, such as the strategic positioning framework (Porter, 1980) and the perspective offered by population ecologists (Hannan & Freeman, 1977). Greatly adding to its popularity was the heuristic used by the RBV: explaining competitive performance by factors that were seemingly under direct managerial control: resources that resided within the boundaries of the firm. The compelling logic employed in the RBV inspired many empirical investigations that sought to explain performance differentials (Henderson & Cockburn, 1994; Sakakibara, 1997; Maijoor & van Witteloostuijn, 1996).

The operationalization of the RBV resulted in the identification of numerous resources and consequently a broad spectrum of categories has been proposed, most notably 'productive' and 'administrative' resources (Penrose, 1959), 'complementary assets' (Teece, 1986), 'tangible assets' and 'intangible assets' (Miller & Shamsie, 1996), 'dynamic capabilities' (Teece, Pisano & Shuen, 1997), 'knowledge' (Nonaka & Takeuchi, 1995) and 'strategic assets' (Amit & Schoemaker, 1993).

These classifications have been useful for addressing the various resource domains, but have not yielded a single unifying perspective to systematically relate the pool of resources available to a firm to performance differentials (Hoopes, Madsen & Walker, 2003). Therefore no clear definitional standard has emerged of what resources are (and what they are not) and how their value can be identified. The underlying reason maybe that these attempts were often an ambiguous mix of describing resources in terms of their particular features and of stating a case for a hierarchy among resources in terms of their ability to bestow a competitive advantage. Yet this implied that the classification of resources and their appraisal in terms of their value have often been confounded. This in turn led to the fact that distinguishing the various categories of resources often coincided with different readings of superior and inferior resources, which are essentially different concepts.

Barney (1991) took a different angle on the matter. He distinguished among superior and inferior resources by using a set of criteria that could in principle be applied to any kind of resource, be it 'productive' or 'administrative', 'complementary', 'tangible' or 'intangible', 'static' or 'dynamic', 'strategic' or 'non-strategic'. In his view, resources should be 'valuable', 'rare', 'inimitable' and 'non-substitutable'. The logic embedded in this quartet of criteria, often abbreviated as VRIN, was that resources should contain value as they should "*exploit opportunities or neutralize threats in a firm's environment*" (Barney, 1991: 106); secondly, resources should be rare, as it is hard to conceive of resources that could render a firm a competitive advantage while being abundantly available; thirdly and fourthly, resources should remain in scarce supply over time, i.e. not easily imitated or substituted. It was clear that a void was filled by Barney's criteria to differentiate between superior and inferior resources irrespective of their categorization, and as such they were widely adopted. In addition, some studies have attempted with mixed success to validate these criteria empirically (Maijoor & van Witteloostuijn, 1996).

Recently, however, the RBV and Barney's VRIN criteria in particular have been fundamentally criticized. Firstly, the RBV does not serve to answer the fundamental question what resources are, as "*virtually anything associated with the firm can be a resource*" (Priem & Butler, 2001b: 32). The proposed VRIN criteria do little to alleviate these concerns as they reveal shortcomings in meeting their objective: distinguishing among superior and inferior resources. The VRIN criteria seem to constitute an arbitrary set of adjectives that overlap substantially. The criteria are neither mutually exclusive nor do they represent an exhaustive set of criteria that describe what an input should live up to before constituting a resource. Furthermore, what is the singular meaning of the predicates 'valuable', 'rare', 'inimitable' and 'non-substitutable'? If something is valuable it is unlikely to be easily substituted or imitated implying substantial overlap among the proposed criteria. And the reverse also holds; if the fact that something is rare and difficult to substitute or imitate is not sufficient to make a resource valuable, what exactly is the meaning of the predicate 'valuable'? Valuable to whom and in what way? In other words: what is the relationship between resources and value?

The fact that it remains problematic to define resources brings us to the second caveat in the RBV: the mechanism employed to describe how resources should install a competitive advantage and be valuable as such. It has been argued that the inferences that are made on the basis of the RBV are in essence tautological (Priem & Butler, 2001a). The reasoning employed in the RBV could not generate valid if/then statements between the specific resources that a firm deploys and its ability to realize a sustainable competitive advantage. Although, the RBV does spell out *that* superior resources produce a competitive advantage it does not spell out the underlying mechanism of *how* this is accomplished. Especially for a framework stressing the importance of resources as drivers for competitive advantage, it is crucial to shed light on the processes underlying this hypothesized causality. Yet the line of reasoning employed by the RBV does quite the opposite: *if* profit differentials are observed, *then* valuable resources are to be had as apparently some firms are able to outperform others (in terms of efficiency and efficacy). And because of the very existence of profit differentials these resources must meet the VRIN criteria for otherwise profit differentials could not be observed in the first place. In doing so, the RBV *assumes* rather than *explains* the mechanism that resource heterogeneity leads to competitive heterogeneity (Hoopes, Madsen & Walker, 2003). In this context it has been argued that the RBV generates analytic rather than the synthetic statements that are the markers of a bona fide theory (Priem & Butler, 2001b).

It has been argued that the reason why this mechanism has remained underdeveloped is that the RBV's account of value is problematic as it solely assesses resource value in the context of the factor market, neglecting the product market in which the firm is to attain and sustain its actual competitive advantage (Bowman & Ambrosini, 2001; Barney, 2001; Priem & Butler, 2001b; Priem &

Butler, 2001a). In its appraisal of resource value the RBV has formulated criteria of how resource value can be retained, neglecting the fact that value needs to be attained in the first place. Consequently, the sustainability concerns have crowded out the attainability concerns when linking resources to a firm's competitive advantage. As a result the RBV has largely neglected the dynamics of the business environment and especially the dynamics of the demand side (Hoopes, Madsen & Walker, 2003; Priem, 2005; Sirmon, Hitt & Ireland, 2005).

Recapitulating, the RBV posits that competitive heterogeneity is the result of resource variance. Thus being able to differentiate among valuable and less valuable resources is of crucial importance to the understanding of how competitive advantage is generated. Yet Barney's (1991) seminal endeavor to construct such criteria – though laudable and highly popular – is contestable on at least two accounts: firstly, it does not provide an exhaustive set of clear and mutually exclusive criteria with which to evaluate resources on the basis of their impact on competitive position of the firm, and secondly, it does not provide for a theoretical underpinning of how resource heterogeneity procured in the factor market leads to performance differentials in the product market.

5.1.2 From Resources to Value and Back

Given the ambiguity in defining what RBV's resources *are,* it may be instrumental to start examining what resources *do*. How can resources bestow a firm with the means to increase their returns? In this respect, Bowman and Ambrosini (2000) made a useful distinction between 'value creation' and 'value capture', defining 'value creation' as the contribution to customer utility of the final good, and 'value capture' as the difference between revenue and cost. This distinction is important because resources that create value may not be the same as those that allow value to be captured.[16] To these two dimensions (Foss, 2003) added a third: value protection, denoting how a firm can ward off the invasion of its competitive position by envious rivals. In the discussion that follows this distinction is employed to examine how resources contribute to value. Although the distinction between the creation, capture and protection of value are intricately related, it is key to disentangle them in order to clarify how resources contribute to the firm and how competitive advantages are achieved and maintained. Taking the RBV seriously leads one to consider whether it is possible to identify resources that serve one or more of the three purposes. To make a full appraisal of how resources are employed, one has to consider more specifically what value is. Following earlier studies (Bowman & Ambrosini, 2001; Barney, 2001; Priem & Butler, 2001a; Priem & Butler, 2001b) we emphasize that resources are not valuable in their own right; they are only valuable to the extent that they create, protect and capture value.

Yet what is the reading of value in this context? As the competitive advantage of the firm is to be achieved in the product market, resources should create, protect and capture value with explicit reference to the competitive process taking place in this market. But then again how does value show itself? Although it has often been treated as an unambiguous matter, value that is exchanged in product markets is more often than not covered in a veil of uncertainty. The value of a product may be so uncertain that it may significantly complicate the eventual purchase (Akerlof, 1970; Darby & Karni, 1973). In markets in which consumers have difficulty assessing the value of competing products, the ultimate purchasing decision may never materialize. More fundamentally, institutional theorists have argued that the very characteristics of the competitive process are determined by the ways in which customers handle uncertainty. To mitigate this uncertainty, attention has been directed to product critics who often mediate such markets, and their evaluation can decide the outcome of competitive processes (Hirsch, 1972; Zuckerman, 1999). Product comparisons and critical appraisals are especially crucial in the formative years of an industry (Rao, 1994) but typically retain their impact in more established industries as well (Eliashberg & Shugan, 1997; Anand & Watson, 2004; Hsu & Podolny, 2005). Being perceived as a winner by such market intermediaries often translates into commercial success, as customers are more inclined to favor endorsed products over those that are not.

The way in which customers deal with uncertainty at the market level and the characteristics of competitive processes at the industry level has been explicitly linked within the framework of the selection system (Wijnberg, 1995; Wijnberg & Gemser, 2000; Gemser & Wijnberg, 2001; Priem, 2005). Selection systems describe competitive processes in terms of actors who are being selected (the selected) and actors who are doing the selecting (the selectors). In every industry a particular selection system can be identified. First, the selectors identify which products to take into consideration, and then proceed to evaluate these selected products on the basis of the criteria they deem relevant. Hence customer utility can be seen as the value that the product has to the customer, the one who pays for the product, according to the judgment of the relevant selectors. Three ideal types are distinguished: market, peer and expert selection. The first type is market selection, in which the final customers are the relevant selectors and the producers the selected. In this case, customers themselves rely on their own evaluation of expected utility of a product before proceeding to a commercial transaction. In other cases the customers may have to rely on the vicarious evaluation by others. In these instances, the customer takes the opinions of others as proxies with which to determine the utility of a product. Such is the case in the second ideal type - called peer selection - when the opinions of other producers (peers) form the basis on which customers will make judgments about the perceived customer utility of the product under consideration. A clear-cut case of peer selection is the case of academics being offered jobs at universities on the basis of the number of publications in major journals, which are edited and reviewed by peers, i.e. fellow academics. If expert selection - the third ideal type - prevails, customer utility is determined on the basis of the opinions of a category of selectors, who are neither customers nor producers but to whom particular knowledge and expertise is ascribed (Hirsch, 1972). Examples abound; insurance companies being rated by Moody's, restaurants by Michelin, pharmaceutical drugs by practicing physicians et cetera. It should be emphasized, however, that the types of selection systems described here are ideal types. In reality, outcomes of competitive processes are often determined by a particular combination or sequence of these types. In some cases, two types of selection, e.g. market and expert selection, can be seen to operate alongside each other. Some may decide to purchase toothpaste for the fresh taste one knows it provides; others may feel compelled to buy it after they have been advised to do so by their dentist.

The role of selectors in competitive processes is twofold. Firstly, they explicitly or implicitly identify the set of valid competitors, thereby effectively distinguishing between 'selected' and 'non-selected' firms. Secondly, they formulate criteria on the basis of which they separate winners from losers by attributing more value to the products of some producers and less to the products of others (Hsu & Pollock, 2005). The score on these criteria is eventually reflected in the price that the customer is willing to pay for a particular product or the number of products sold. Understanding competitive processes as the continuous struggle among rival firms to become on of the selected can serve to distinguish more clearly among different functions of resources by focusing on how they serve the competitive position in a particular selection system. Accordingly, we propose 3 criteria on the basis of which resources can be of value to a firm competing for the favor of the reigning set of selectors: 'in re', 'ante rem', and 'post rem' criteria.

First of all, firms need resources for the production of goods and services. The value of resources that are employed to do so are a *direct* derivative from the value contained by a firm's output. This means that all resources can be rated on the extent to which they create product characteristics that have value in the eyes of the relevant selectors. As an illustration; a car has several characteristics on the basis of which its value is judged. Think of reliability, fuel efficiency, safety, environmental friendliness, design et cetera. Thus resources that help bring about a favorable rating on criteria that the relevant selectors have spelled out either ex- or implicitly for these characteristics have value to firms engaged in competitive processes. Hence our formulation of 'in re' criteria, that is a measure of the value of resources in their functionality to create value:

In re criteria: *In re criteria describe the value of resources in their capacity to create product-characteristics that have value according to the relevant selectors.*

'In re' criteria allow for a differentiation between valuable resources and less valuable resources, which is rooted in their capacity to create value. Yet from the above it becomes clear that the possession of resources that create value on the 'in re' continuum will not suffice to do well in competitive processes. A sine qua non condition for products to contain value is that firms need to get the product acknowledged by the relevant selectors so that it can be rated on the basis of the relevant product criteria. No value is created if it is not perceived as such by relevant selectors. It is not enough to be able to manufacture a product or good. First of all, a firm has to enter the competitive process as a true competitor: as one of the selected. We posit that on the basis of specific resources the firm can improve its chances of being recognized by selectors as being a true competitor and in doing so have their products evaluated against competing products. Under the same heading we group resources that negatively influence the chances of (potential) competitors to get access to the selection system, by convincing selectors to pay attention to the focal firm and not to its rivals.

What should be emphasized here is that these resources are employed 'ante rem' - that is before the value of the competing products (created by the 'in re' resources) can be compared. One has to enter the selection system before one can do well in the eyes of the selectors. It should be clear that this brings us close to the notion of the barrier to entry. However, there are differences. The literature on barriers to entry focuses mainly on assets that build barriers (Geroski, 1991), and not on the assets that are used to overcome them. More importantly, however, conceptualizing barriers to entry in this fashion allows one to see more clearly which assets grant market access. The use of the concept of the selection system enables a more specific distinction between resources that are used to create value in the eyes of the selectors (the scarcity of which can give rise to a barrier to entry), and resources that can be used to enable the firm to be granted - explicitly or implicitly - a competitor status by the selectors and/or to deny this to others. This allows us to deepen and clarify our understanding of the concept of barriers to entry as it was originally proposed by Bain (1956) , who mainly focused on scale advantages that can be achieved from the use of resources that satisfy 'in re' criteria. Condensing the argument laid out in the above leads us to propose the following definition of criteria that describe the value of resources in their capacity to put the firm in a position that its products will be evaluated.

Ante rem criteria: *Ante rem criteria describe the value of resources in their capacity to either allow a firm to effectively enter a particular selection system as one of the selected or prevent its rivals from doing so.*

Yet the more successful a firm becomes in realizing value creation through the effective deployment of resources that rate highly on both 'in re' and 'ante rem' criteria, the more it attracts the (unsolicited!) attention of envious rivals. This directs attention to the concept of value protection as a firm can only capture the value it creates if the firm owns resources that ensure that the products cannot be imitated. Therefore, it follows, that the possession of resources, which have value along the 'in re' and 'ante rem' dimensions, forms a necessary but not sufficient condition for value to be created and ultimately be appropriated.

The importance of appropriability concerns, which have been well acknowledged in the extant literature, focuses on how firms can provide isolating mechanisms that are aimed at preventing direct rivals from profiting through competitive imitation (Lippman & Rumelt, 1982; Rumelt, 1982; Mahoney & Pandian, 1992). Various means of value protection have been identified. They can either be formal, taking the shape of institutionalized monopolies such as patents (Mansfield, Schwartz & Wagner, 1981; Levin, Klevorick, Nelson & Winter, 1987; Cohen, Nelson & Walsh, 2000) and copyrights (Conner & Rumelt, 1991) or be non-formal, such as causal ambiguity (Reed & DeFillippi, 1990) and the threat of loss of reputational capital (Gemser & Wijnberg, 2001).

Again, the approach of this paper is to consider the 'functionality' of resources, by focusing on the roles these resources play in competitive processes. Therefore, we also take into account those resources that can be used to counteract the protective efforts of others. Thus we place under the same heading of resources those that can be employed to enable a firm to imitate its rivals, emphasizing that value protection harbors both a defensive as well as an aggressive element. For instance, by engaging in blanket-patenting a firm can aggressively prevent its innovative rival from protecting itself adequately (Kingston, 2001). Causal ambiguity can make it harder to imitate but can also make it harder to detect or prove imitation. The fear of loss of reputation can stop an imitator, but a strong reputation can also help an imitator to allay suspicion or successfully defend itself in court. Resources that serve achieving such ends are clearly valuable to competitors but in a different way than with regard to the previously mentioned criteria. Therefore a third type of criteria can be defined as follows:

Post rem criteria: *Post rem criteria describe the value of resources in their capacity to either allow a firm to engage in competitive imitation of the product-characteristics that have value according to the relevant selectors or prevent its rivals from doing so.*

Here it is important to note that a specific resource – be it human, physical, financial or otherwise – typically produces different value on the 'in re', 'ante rem' and 'post rem' criteria because the specific resource takes on different functionalities in competitive processes. Consequently, 'in re' criteria, 'ante rem', and 'post rem' criteria can be employed to determine the full economic value to the firm of a particular resource. Consider an employee that has much value based on 'ante rem' criteria for s/he entertains closely knit relationships with the relevant selector. Yet this employee may very well have little value on the 'in re' criteria, since his/her core duties are hardly directed at the 'in re' functionality.

In essence, we argue that resources are employed by firms to perform different functions in competitive processes. The value of every resource can be determined by scoring it with regard to three mutually exclusive criteria that each measures one of the three functions that resources can perform in competitive processes. These criteria can be seen to provide an alternative to Barney's (1991) VRIN criteria as they exhaust the possibilities in which a resource can be functionally valuable to a firm.

5.2 Bundling Unbundled

One further remark is of importance here. It is the interplay of the various assets that determines the extent to which firms can finally capture value from the final customer. Therefore, no simple one-on-one relationship can be formulated between one of the three criteria and the notions of value creation, protection and capture. For firms to create value, they need to possess resources that rate not only highly on the 'in re' criteria, but also on the 'ante rem' criteria for reasons explicated in the above. Similarly, for firms to effectively protect value, they may resort to the exploitation of resources that have value along the 'post rem' criteria, but may equally find it worth their while to make sure that the (potential) ties of their rivals to the dominant selectors are severed, thereby effectively employing resources that have value based on 'ante rem' criteria. Relying on resources that ensure that selectors do not acknowledge the product of a (potential) rival firm may wield the most effective means of value protection. The underlying rationale is obvious; the rival's product as well as the accompanying patent/copyright - and thus the related 'in re' and 'post rem' resources - are essentially worthless *when it not selected*. Therefore, the criteria as spelled out allow a more fine-grained analysis of how resources are employed not only to attain, but also sustain a competitive advantage. It will depend on the specific circumstances which combination of resources is most beneficial to the firm's performance. The next section will be devoted to further explore this issue.

5.2.1 First & Second-Order Bundling

The issue of bundling is at the same time an issue of unbundling resources. One singular resource does not make a firm; a firm is always a bundle of resources. The issue of optimal firm boundaries that has been the focus of transaction cost economics (Coase, 1937; Williamson, 1975) is in essence equivalent to the issue of which portfolio of resources results in an optimal competitive position. The importance of 'bundles of assets' (Wernerfelt, 1984), 'co-specialized resources' (Lippman & Rumelt, 2003) or 'complex resources' (Denrell, Fang & Winter, 2003) has been emphasized in this respect.

Yet what is the optimal bundle of resources when maximizing resource value in competitive processes? To resolve this issue we propose distinguishing between first-order and second-order bundling of resources. First-order bundling refers to the bundling of resources for reasons of competitive efficacy that mainly pertains to optimizing the resource portfolio of the firm in terms of the different resource functions. Second-order bundling refers to the bundling of resources for reasons of operational efficiency, which mainly pertains to optimizing the resource portfolio of the firm in terms of minimizing the costs of production.

5.2.2 First-order Bundling

In order to resolve the issue of first-order bundling, the functionality of resources in competitive processes needs to be addressed. Although the argumentation proffered in the above is testimony to the importance of resources that score highly on 'post rem' and especially 'ante rem' criteria, it would be premature to conclude that it is only these resources that have to be included within the firm's boundaries to enhance the likelihood of attaining and maintaining a competitive advantage. There are strategic considerations why firms should not solely focus on retaining resources that score highly on criteria other than 'in re'. The main reason is that selection systems are rarely completely stable; apart from radical changes leading to a replacement of a selection system by a completely different selection system (Wijnberg & Gemser, 2000), the composition of the set of selectors can change, also as a result of competitive processes among selectors. Resources that are functionally valuable in one selection system may be much less effective in another. In other words, there is a degree of idiosyncrasy to every resource and there are obvious switching costs when changes in the selection system take place. In similar vein, other scholars have noted that demand-side instability has profound implications for the resource-base of a firm (Sirmon, Hitt & Ireland, 2005). Resources that score highly on 'post rem' criteria are usually more suited to particular selection systems than to others (Wijnberg, 2004). This is even more likely in the case of assets that score highly on 'ante rem' criteria, because they are by definition effective with reference to a particular set of selectors. The resources that allow firms to favorably influence one set of selectors is likely to lose its value when another set of selectors emerge, while it is usually less problematic to redeploy 'in re' resources that create products in the changed selection system. Thus changes in the selection system affect the value of the resource portfolio that a firm possesses.

Changes in the characteristics of selection system can be caused by all kinds of reasons, including large-scale socio-economic developments on which the strategic choices, behavior and performance of competing firms have but little influence. Other changes, however, are likely to have been caused by strategic behavior that - in turn – may have been a reaction to a manifestation of performance differentials among firms. First of all, it is self-evident that competitors who are not selected for serious consideration will have the greatest incentives to help establishing a new selection system. Secondly, owners of 'in re' resources may also try to bypass the system, because they may feel poorly remunerated by the firms that own 'ante rem' and 'post rem' resources, with which they need to cooperate to effectively market the final product.

To react to such developments, firms owning 'ante rem' and 'post rem' resources have several options. Firstly, they could strengthen their own competitive position by strengthening the present selection system and the competitive position of those selectors that favor them. This could involve direct monetary payments paid to particular selectors (Coase, 1979) or more indirect interventions in the competitive process among selectors.

Secondly, firms owning 'ante rem' and 'post rem' resources could pay a premium to the possessors of 'in re' assets so that they do not feel compelled to bypass the current selection system and help to create another one. This practice is not uncommon in the car industry, where companies like Toyota actively seek the cooperation of their subcontractors through rent-sharing schemes (Kogut, 2000).

The third alternative would be that firms may choose to engage in first-order bundling to ensure that all resources that have high scores on all three criteria are represented in their portfolio. Here it is important to note that the viability of these strategies is fully dependent on the stability of the selection system. The more unstable the selection system, the more firms that own 'ante rem' and 'post rem' resources may be inclined to pursue first-order bundling. The underlying rationale is that 'ante rem' and to a lesser extent 'post rem' resources may be effective under one selection system but may be rendered obsolete when a new selection system takes control. Thus an unstable selection system may prompt firms to hedge against the eventuality of a changing selection system and procure 'in re' resources as their specificity with regard to a particular selection system is likely to be smallest. In summary, these arguments suggest the following proposition[17]:

Proposition 1: *The extent of specialization among firms in an industry with regard to resources that rate highly either on 'in re' or 'post rem' or 'ante rem' criteria, will be positively related to the stability of the selection system of the product market.*

5.2.3 Second-order Bundling

Next to arguments of efficacy, efficiency reasons can be discerned that may compel a firm to bundle different types of resources within its organizational portfolio. As such, second-order bundling generally refers to the scale and scope advantages that can be had in resource deployment. With regard to scale, there exists a minimum-efficient scale of deployment for certain resources and hence a critical mass may be needed before they can be effectuated. The literature makes reference of many instances where potential technical and social efficiencies can result from combining resources in particular settings. With regard to scope it has been noted that resources may not be effective unless bundled with other resources (Wernerfelt, 1984). This implies that a resource can only be put to its best use in combination with other resources the resource supplier may or may not be able to acquire. Thus second-order bundling may follow when clear organizational advantages are to be had by combining (different) resources. Simon (1991) noted that loyalty and a sense of belonging could enhance the viability of bundling human resources within a single organization. Second-order bundling may also be beneficial when shared experiences initiate learning curves for the members of the organization (Yelle, 1979).

It is important to note that bundling for reasons of efficiency is fundamentally different from the bundling of resources for efficacy arguments. Whereas the latter has direct implications for the competitive position of a firm, the first is only auxiliary to first-order bundling decisions. Peter Drucker's (1992: 29) famous adage comes to mind: "*Nothing is less productive than to make more efficient what should not be done at all*." Therefore, the focus of this paper will remain first-order bundling, i.e. bundling for efficacy.

5.3 Unbundling Managerial Control

Thus far, we have discussed bundling as the result of explicit decision-making by the firm's management; however, the extent to which the management can make such decisions is in itself limited by the characteristics of resources and, especially, by the extent to which it is possible to identify how well particular resources rate on particular criteria. Consider a firm that is able to outperform its rivals. Especially if this firm is to sustain this competitive advantage over time, it must by definition be able to command a superior bundle of resources. The importance of 'post rem' and 'ante rem' resources has been stressed in this respect. Consequently, the firm that is outperforming its competitors will trigger the envy of its rivals, who will be very keen to learn more about the key components of its competitive success, in order to copy or acquire them. As discussed, determining which ingredients are key to competitive success entails determining how well different resources score according to the three criteria. Therefore, an observed performance differential will set in motion a directed search of rival firms aiming to identify the valuable resources that must – in accordance with RBV logic – lie at the root of this competitive advantage. This directed search essentially implies that market forces are unleashed to articulate the value of the resources that help attain a competitive advantage. Over time this will result in the identification of crucial resources, that rate favorably on any of the 'in re', 'ante rem' and 'post rem' criteria. And with their identification the tradability of resources is also enhanced. This leads us to the following proposition.

Proposition 2: *The competitive pressure to identify the value of the resources of a successful firm according to the 'in re', 'ante rem' and 'post rem' criteria is positively related to the performance differential between this firm and its competitors.*

Yet the strongest driver aimed at identifying the extent to which resources fulfill criteria may not come from outside the organization but from within. Here it is important to understand that organizations themselves can also be considered to constitute competitive arenas. In every organization the resource providers compete among each other for the proceeds that the organization earns as a collective. The perceived added value of the contributions of the individual resource providers will guide how these proceeds will be divided. This competitive arena can be considered the internal selection system opposed to the external selection system that allows resources to be valued outside organizations that led to the formulation of proposition 2. As Moran and Ghoshal (1999: 407) wrote: '*Organizations in general and firms in particular counterbalance the institutional constraints imposed by markets by muting, replacing or otherwise modifying market incentives […] each firm creates a unique subsidiary context, consisting of its own mix of incentives that encourage the assimilation, sharing and combination of resources…*'

Thus due to internal of competition processes, members of the organization will base their claims for sharing in the proceeds earned by the organization on how well the resources they have made available have helped realize a competitive advantage. As Coff (1999) has emphasized, the dividends paid to shareholders are just one part of these revenues; other members of the organization also stake claims vis-à-vis these captured revenues. When members become more aware of the relationship between the competitive advantage that is being attained and their contribution to it, they will seek extra remuneration. Especially because '*[T]he division of the surplus is the outcome of bilateral bargaining and the shares are formally indeterminate*' (Lippman & Rumelt, 2003: 909), new bilateral bargaining may ensue between the providers of resources on the one hand and the organization on the other. The more explicit the evaluation of resources, the more empowered their owners, who may choose to exert their 'exit' option (Hirschman, 1970) if not adequately remunerated.

Of course we acknowledge that even though the competitive value of a resource may be identified, the risk profile of the supplier of resource and the firm may differ. Although the firm may procure resources with the expectation of being able to put the resource to its best use, it assumes a risk of failure. Therefore, the supplier may agree to a lower price reflecting the optimal price minus a risk premium. More fundamentally, however, besides the willingness to assume risk, the firm can build an arbitraging role from its ability to modify and reduce risk. If a firm can reduce the valuation risk of the outputs it produces, it can directly reduce the valuation risk concerning the inputs it acquires as it in effect negotiates the environment and buffers against uncertainty (Pfeffer & Salancik, 1978). Thus the possession of resources that score highly on the 'ante rem' criteria is a double-edged sword; not only does it reduce the uncertainty in the product market, but it also empowers firms on the factor market for it yields a favorable risk-premium outlook to its owner.

Notwithstanding that the firm does not always have to pay the full price for resources, significant profit differentials between firms will lead to these internal pressures along with the aforementioned external pressures to identify the extent to which resources fulfill the 'in re', 'ante rem', and 'post rem' criteria. This will make the market for these resources more transparent and the resources themselves easier to trade. Consequently the exit-option will be easier to contemplate and the resources will become more mobile, which in turn will make the market more transparent and so on until the competitive advantage is dissipated. The fact that the contribution of academics to the competitive standing or their organization can be rated according to an 'objectified' set of criteria (number of publications, citations, impact factors, teaching evaluations etc.) greatly facilitates the job mobility in the scholarly job market.

Proposition 3: *The mobility of a resource is positively related to the extent to which it has been identified to fulfill 'in re', 'ante rem', and 'post rem' criteria.*

The arguments leading up to propositions 2 and 3 present a daunting prospect for the management of a successful firm. Although we emphasized earlier that managers cannot be considered to make their decisions autonomously, it is would be overstating that management is completely powerless in the face of the vicious or virtuous cycle of value discovery described above, in which the internal selection system comes to mirror closely the external selection system.

Following Simon (1991), Wijnberg (2004) has suggested that organizational benefits, and as a result the chances of realizing a competitive advantage, may decrease when the internal selection system mirrors too closely the external selection system for resources. An organization in which the internal selection system mirrors too closely the external selection system will be less of a collective entity. Its employees will feel less loyalty to the organization than is the case when there is divergence between the valuation resulting from the internal selection system and the valuation produced by the external selection system. Members of the organization will be less inclined to accept postponements of the remunerations for their contributions. For all these reasons the organization will function less as a true organization and more as a group of transaction-partners. This paper allows us to convert these suggestions in a more precise proposition.

In the arguments leading up to the previous propositions it has already been assumed that preventing the acquisition of precise knowledge about how well particular resources score according to the aforementioned criteria serves the successful firm in protecting itself against competitors and also maintain the advantageous information asymmetry vis-à-vis suppliers of inputs. To this argument in favor of *not* making explicit how much every factor of production contributes to the firm's success we now add the argument of the preservation of organizational benefits. This reasoning differs markedly from the literature on the use of performance measurement schemes to curb social loafing (For a review see Karau & Williams, 1993). This body of literature stresses the importance, for increasing overall productivity, of the formulation of clear and objective performance measures. This approach may be effective in organizations where there is very little information about the relationship between resources and competitive outcomes. When the members of the organization have little idea about the value of each other's contribution, the organization will benefit from making more transparent how each member contributes to the eventual success of the organization.

Yet we want to argue that once a minimum efficient level has been reached to control social loafing, the articulation of the individual contributions of members towards the organization's success will likely produce negative effects on overall organizational performance. The articulation of performance measures may result in making the value of resources that reside within the organization transparent beyond the boundaries of the organization, effectively making the internal selection visible outside the organization. This would enable the owners of resources to market themselves beyond the boundaries of the organization on the basis of valuations that are produced by the internal selection system. This in turn would make it easier for competitors to copy successful resource-mixes and for the owners of resources to remain within or exit the organization. Therefore, 'objective' performance measures may again serve operational efficiency but, after having passed a minimum level of efficiency, can harm competitive efficacy. This leads us to the following proposition.

Proposition 4: *The extent to which the value of resources as determined in the internal selection system can be seen to be derived from the valuations that take place in the external selection system will have an inverted u-relationship with the performance of the organization.*

The implications of this proposition bring us back to bundling, because bundling resources that score on 'in re, 'ante rem', and 'post rem' criteria can help to counteract the pressures of articulating the value of particular resources. Additionally, determining the value of bundles of resources that only score on the 'in re' criteria as well as distributing the associated rents may become cumbersome if the resources are co-specialized. But in principle the total value of resources that only score on the 'in re' criteria - even if co-specialized - can be directly linked to the value of the final product as determined in the selection system in the product market. The value of 'post rem' and 'ante rem' resources, however, is derived from the effect on the competitive position of the producer and is determined in another selection system in which the competing firms are actually the final customers. Thus combining within the firm resources that have different functions in competitive processes makes it more difficult to assess their individual contributions based on the external selection system and *therefore* causes the internal and external selection systems to diverge, in turn creating the conditions in which organizational benefits can ensue and performance differentials can be maintained.

5.4 Concluding Remarks

The prime objective of the Resource-Based View (RBV) of the firm is to study the relationship between specific resources which a firm exploits and the resulting capability to attain and maintain a competitive advantage. The concept of 'value' plays a crucial role in explaining how a sustainable competitive advantage is to be attained (Barney, 1986). Recently, however, the Resource-Based View has been criticized for its lack of an adequate appreciation of what actually constitutes 'value' and how 'value' can be derived from 'resources'. The criticism that has been voiced against the RBV has revealed two caveats: firstly, the extant literature on the RBV lacks a clear and unambiguous measure of resource value, and; secondly, the RBV does not clearly spell out the mechanism that demonstrates how resources can bring about a competitive advantage, for it largely disregards the product market in which this competitive advantage is to be brought about.

This paper addresses these concerns by proposing three sets of criteria to measure the value of resources based on their functional merit in competitive processes: *'in re', 'post rem', and 'ante rem'* criteria. These criteria can be employed to measure the value of a resource in its capacity to attain and maintain a competitive advantage, be the resource tangible or intangible, static or dynamic, strategic or non-strategic. As such, the proposed criteria can be superimposed on any resource-classification to construct more specific hypotheses about the conditions under which a particular resource can be of value to the firm. Moreover, these criteria allow for the distinction between first-order and second-order bundling of resources, to achieve a better understanding when bundling is desirable on grounds of competitive efficacy and when for reasons of operational efficiency.

These foundations allowed the construction of a number of propositions explicating the extent of resource specialization within an industry as well as the extent to which the value of a resource can be identified from inside and outside the organization. Our discussion of the causes and effects of the identification of the value of resources sheds new light not only the mobility and tradability of resources but also on the issue of firm boundaries. Here we break fundamentally with the extant literature on the RBV as we contest the silent assumption that all resources are *essentially* placed under managerial discretion. Building the optimal resource portfolio may not be at the discretion of the firm itself but at the hands of the owners of resources who may or may not choose to become members of the organization. Thus managerial control over resources depends on the extent to which the relationship between resources and competitive advantage remains opaque and ambiguous. Conversely, the more the value of resources becomes explicit and transparent, their owners can enjoy the enhanced tradability and mobility.

In a similar vein, the articulation of resource value using the proposed criteria also provides new insights on the issue of firm boundaries, by analyzing the extent to which resources can be retained within the firm. Thus the make-or-buy decision (Williamson, 1975; Williamson, 1985) may not be one taken by the management but rather by the resource supplier. In fact the extent to which the internal selection system and the external selection system converge and diverge in their assessment of resource value may be the prime driver behind the resulting organizational form. Hierarchies may fare better in an in environment of divergence, because the management can exploit the existing information asymmetry whereas convergence may lead to market or network forms of economic organization (Powell, 1990) as the internal selection system has in essence been absorbed by the external selection system.

The discussion of the internal and external selection system also allows delineating the difference between resources and inputs. The value of inputs is determined outside of the organization. Suppliers of inputs transact with the organization and do not share in the fortunes of the organization as a whole. In contrast, providers of resources are members of the organization and as such they compete with other members in the internal selection system. An important part of our argument had to do with the relationship between the selection system in which the firm is active as a competitor and the selection system operating within the firm, determining the internal distribution of the captured revenues. As Coff (1999) has emphasized, the dividends paid to shareholders is just one part of these revenues; other stakeholders of the organization also claim their share and these should be taken into account when making an appraisal of how well the firm performs. As quoted before, Lippman and Rumelt (2003) stress the fact that all revenues can be considered payments for inputs or resources. The suppliers of inputs are rewarded by the prices that the firm pays in the markets for inputs. What is left of the revenues - after subtracting the payments for inputs - can be distributed among the members of the organization, most often employees and shareholders. These members stake their claim on a share of the revenues based on the significance of the resources they availed for the firm's process of value creation, protection and capture. Or conversely, this statement can be read as an alternative definition of what a resource is: something that enables a member of an organization to stake a claim on the organization's proceeds as a compensation for availing it to the organization to create, protect, and capture value.

6 Conclusion

This thesis builds on the premise that the outcome of competitive processes is to a large extent contingent upon how consumers endeavor to curb the uncertainty regarding exchange value. Mitigating the adverse effects of uncertainty, institutions emerge that serve to better inform the consumers of the value that is object for exchange. Rather than the random fashion in which mainstream economics models exchange, these institutions create a certain degree of inertia with regard to buying behavior as consumers follow the implicit or explicit guidelines that these institutions produce. Therefore, firms that are able to create or procure resources that grant them access to such institutions are hypothesized to enjoy a leveraged competitive position vis-à-vis their rivals thereby reaping the benefits that non-random exchange can bring about.

Against this background I have undertaken four independent studies that aim to capture how firms develop strategies to further their economic interests. The first study brought to light how firms can improve their terms of exchange with suppliers upstream and buyers downstream by maintaining closely knit relationships with institutions that mitigate this uncertainty on behalf of the final consumers. These institutions will be central in the analysis of competitive processes in the remainder of the studies. As such, we build on the selection system perspective (Debackere, Clarysse, Wijnberg & Rappa, 1994; Wijnberg, 1995; Wijnberg & Gemser, 2000; Wijnberg, 2004; Priem, 2005) in which these institutions are treated as 'selectors' because of their central role in the determination of value in markets. The second study harks home how the value created by firms that suffer from the 'liability of (smallness and) newness' (Stinchcombe, 1965) may invoke such great uncertainty on the parts of potential stakeholders that these stakeholders may only be willing to commit their resources provided that the legitimacy of these small and new firms reaches some kind of threshold level. The widespread prevalence of the practice of payola throughout the history of the music industry was the object for study in the third investigation, which provided support for the general proposition pervading this thesis that competitive success hinges on the way in which firms can ally themselves with the dominant selectors. The fourth study tried to combine the insights provided by the preceding three studies proposing a reading of resources that could prove a viable alternative for the popular resource based view of the firm. By delivering a novel approach to measure the value of resources, this study suggested that the defining difference between markets and organizations is the extent to which an organization is the competitive arena in which the value of a resource is determined.

By focusing on how firms could economize on the uncertainty that is present in markets, this thesis made an explicit link between institutional theory and strategic management. Although the implications of institutionalization processes for competitive processes have been acknowledged (DiMaggio & Powell, 1983), this thesis takes a step further by positing that institutions are involved in their own competitive processes. The recognition that these institutions are not merely disembodied entities, helped to understand the interplay between competitive processes at the industry level and those that are affecting the survival chances of the institutions themselves. This thesis has made an attempt to show how selectors operate as market institutions that mitigate the effects of uncertainty and are therefore also risking their own competitive position when endorsing particular firms. Thus the competitive success of firms in the industry level could to a large extent be explained by the viability of the linkages that they enjoy with particular institutions and vice versa. While the former is increasingly gaining currency in the extant literature (Rao, 1994; Anand & Watson, 2004), the latter is a novel finding.

As such, this thesis proffers a view of competitive processes as institutional arenas. Being granted access to the arena is a necessary but not sufficient condition for competitive success to ensue as the outcome depends on how well each contender scores relative to the other in a game in which the rules are set by the relevant selectors. Formalizing competitive processes using the metaphor of institutionalized arenas would solve a number of pressing issues facing organization scholars, most notably the problem underlying taxonomies of competition. Porac and Thomas (1990) took issue with how competition was defined in the extant literature arguing that it did not live up to how practicing managers perceived competition. Especially, large field studies employing the Standard Industry Classification (SIC) fell short of providing a realistic account of competition because industries in these studies were confined to bureaucratic categories. The result is that, while quantitative industry studies are becoming the norm in our discipline, industry definitions are hardly given. Apart from the obvious problems this creates for operationalizing key variables, theoretical concerns are mountings as well because without a thorough understanding of industry definitions, it is hard to validate concepts such as 'new entry' as well as 'vertical integration', because both hinge on a clear definition of industry membership. Viewing competitive processes as selection taking place in institutionalized arenas would provide a more comprehensive and realistic account of competition as it derives its meaning from the perception by the competitors themselves. To understand if two firms are competing with each other can be readily observed by determining whether or not they are competing for the attention of the same set of selectors. Rather than departing from bureaucratic classifications of industries, competition can be defined based on the set of companies that vie for the favor within a particular selection system. Examples that come to mind are rankings, endorsements, attention by media and so on and so forth. This should however include both the 'selected' as well as the 'non-selected' firms that failed to make a successful bid to be considered by the relevant selectors. Of course, this thesis acknowledges that in reality selection is a gradual scale; just as it is hard to imagine that one firm enjoys being selected by all relevant selectors, it is hard to imagine that one firm may be completely non-selected.

As has been elucidated in the course of this thesis, these findings provide a significant contribution to the realms of strategic management. The insights have been especially fruitful to rekindle two opposing views on how a competitive advantage is to be achieved. Resources-based perspectives have been contending with environmentally determined models for becoming the dominant theoretical framework within the strategic management discipline. The resource-based theories of the firm emerged as a reaction to the hitherto popular theories that stressed the environment as the prima causa for a firm's competitive position. Proponents of the latter are the population ecology perspective (Hannan & Freeman, 1989) and the strategic positioning framework as developed by Porter (1980). The necessity to identify and subsequently procure crucial resources is not fully appreciated in these outside-in theories of the firm, leaving little room for entrepreneurial and managerial discretion. The resource-based view (RBV) of the firm questioned that resources are highly mobile and tradable on factor markets as was implicitly assumed by the models sporting environmental determinism and took this as its forte to explain how a competitive position could be attained and sustained (Barney, 1991). Yet the RBV proved unable to provide a comprehensive account of how firms can attain a competitive advantage in the market in which they operate for its conceptualization of resources was purposefully disconnected from the firm's environment (Wernerfelt, 1984). By scrutinizing the functions of resources in relationship to the competitive processes in which a firm is engaged, this thesis has explicitly linked the factor market and the product market, in which the firm is to attain its actual advantage. In this manner resources that reside within the boundaries of the firm are explicitly linked to the competitive environment in which the firm is operating. In doing so, this understanding of resources renders the artificial distinction between the inside-out and outside-in perspectives obsolete, staking a claim that both provide but a partial view of competitive processes.

This reading of strategy has salient implications for our understanding of institutional entrepreneurship. In all competitive processes, but especially in those taking place in the formative years of an industry, it is of utmost importance that potential customers get educated about (novel) products should they ever be able to attain an appreciation of their potential value. Thus pioneering entrepreneurs fulfill an arduous task when engaging in innovative behavior; firstly, they need to produce a novel product, and secondly the need to enact the environment so that sense making institutions are installed that are able to assess the value of products that compete in this new market. This is especially telling from studies of groundbreaking innovations; they have first to attain an adequate level of cognitive appreciation before they can be traded. Especially the work done by Rao (1994) on the early automobile industry is insightful in this respect. He describes that the success of the car was contingent upon the car being recognized as an alternative product category in the market for transportation, which until then consisted mainly of train and horseback. The organization of car races that enjoyed great media coverage in the newspapers served to construct the car as a separate product category. As a result the newspaper industry served to reduce the initial hesitance on the part of prospective buyers in the formative years of the automobile industry. In a similar sense, Rao (1998) reflected on the influence that consumer watchdog organizations had on industry dynamics when they took on the role of 'impartial testing agencies' on behalf of the consumers. Anand and Watson (2004) illustrated how institutionalized arenas may over time be enacted by the deployment of 'tournament rituals' that could largely explain the competitive success of the participants. Thus these 'tournament rituals' are not only legitimacy building devices for new industries and companies, but are at the same time crucial for the instigation of a selection system, where firms compete for favor of the selectors.

The institutionalization of new product categories also implies that criteria are formulated (e.g. regarding reliability and durability) that help consumers to arrive at an estimate of the value contained by the competing product. Such criteria typically develop into 'evaluative schemas' that help consumers differentiate among products in the same product categories (Hsu, 2004). Thus product variety may also be more understandable in relationship to the reigning selection system.

As such, studying the institutionalization of new product categories is instrumental for understanding how new organizational forms emerge. As the first product of its kind is likely to be understood by the market in a prototypical sense (Lakoff, 1987), pioneering producers are likely to become the benchmark against which newcomers are measured. Subsequent variation of organizational forms is likely to be understood as degrees of deviation from this prototypical producer. New entrants in the market for fast-food are understood in the way in which they fit the category created by McDonald's Big Mac, Coca-Cola's Coke, and Microsoft's Windows.

As the institutionalization of products generally reaches beyond the capabilities of single companies, institutional entrepreneurship generally requires a strong degree of co-operation among the industry's pioneers geared at producing most notably cognitive legitimacy (Aldrich & Fiol, 1994). In similar vein, population ecologists found support for their density dependence argument suggesting that in the formative years of an industry the mortality rates are low because the industry gains legitimacy, thereby hosting a wide array of organizational forms which is subsequently narrowed as the industry reaches maturity and competition intensifies.

Yet whereas Aldrich and Fiol (1994) stress the cognitive legitimacy of the organization, the findings of this thesis suggest that the product needs to be firstly understood before any meaningful verdict can be made about the taken-for-grantedness of the organization producing it. This is supported by the fact that the articulation of explicit ratings by the relevant selectors regarding value has been deemed to have profound repercussions for how the organization is perceived by the environment and by itself (Elsbach & Kramer, 1996).

Especially since the product is the marker by which new organizations can be understood by its environment, the cognitive legitimacy that the product enjoys is posited to form the foundation for cognitive legitimacy at the organizational level. And as the cognitive legitimacy that the product enjoys is contingent on the way in which the selectors views a particular product, the linkages that are established between firms that are selected in the formative years of an industry and the selectors are likely to be the crucial explanatory factors for how organizational forms emerge. Thus the organizational form as a 'blueprint' for an industry's representative firm (Hannan & Freeman, 1977) is likely to develop in lock step with the selection system and it is not unlikely that the creation of the new product will trigger a 'speciation event', i.e. the birth of a new organizational form (Lumsden & Singh, 1990). Ultimately the institutionalization and the subsequent diffusion of an organizational form can be accelerated by the workings of the selection system.

Moreover, when an organization is the first to be sporting a particular innovation it is likely to set the standard. This is in line with the finding that the development and evolution of industry standards display a high degree of path dependency (David, 1985). Thus it is likely that a prototypical effect may be induced in this respect. It is likely that because it was the first, this firm may have strong influence on how the classification system of this product will evolve, which in turn are likely to affect the survival chances of the focal organization.

Moreover, the creation of a new product has strong implications for how the prototypical organization is conceived of. Under isomorphic selection pressures it is plausible that organizations that follow suit after an institutional entrepreneur paved the way, will exhibit isomorphism on the organizational level by taking after the innovating company when designing their organizational form.

Based on the findings in this thesis, it can be posited that observed isomorphism in industries is a reflection of the achieved dominance of particular criteria which are used by the selectors in their assessment of the selected. As such, this thesis subscribes to the view that competitive processes will over time display a convergence to norms that are upheld by institutions as has been acknowledged by the literature (Meyer & Rowan, 1977; DiMaggio & Powell, 1983).

While not disputing that these competitive processes may be highly ceremonial, I see no ground for the trade-off between efficiency and legitimacy as was suggested by Meyer and Rowan (1977), and which was subsequently employed to explain the decoupling of organizations. On the contrary, I believe that efficiency criteria are by themselves highly institutionalized and cannot be isolated from the competitive process in which a firm is engaged. In other words, efficiency defines the most economical way of production but this is different from stipulating that only the cheapest resources should be deployed as these may not have any economic value. Thus legitimacy and efficiency are likely to go hand in hand. Furthermore, as the findings of the second study suggest, relevant stakeholders may only be compelled to offer their resources to a particular firm because it has gained legitimacy. This would imply that firms that are viewed to be illegitimate should pay a risk premium to the owners of resources, making them less efficient than their legitimate rivals. So rather than relaxing the control over exchange because a trading partner enjoys greater legitimacy, I believe that this trading partner is more legitimate because it adheres more closely to the particular criteria. And as suggested by the fourth study, it is the extent to which these criteria become explicit and known to the owners of resources that is the reason underlying the decoupling of organizations.

This in turn implies that organizational and institutional evolution are intricately linked. Thus selection pressures that operate at the organizational level are dependent upon the selection pressures that are present at the institutional level and vice versa. For understanding variation in institutions and industries it is crucial to understand the selection pressures that hold sway. To date the predominant view has been that selection pressures operate on industries rather than on institutions. To survive selection pressures the literature on organization theory has stressed that organizations need to develop in lockstep with their environment. If the lack of fit between the organization and its environment becomes too pronounced the organization's survival chances will diminish. Yet if organizations become too frantic in their accommodation of environmental change they risk soliciting organization mortality as well because some degree of inertia may be needed to maintain a perception of reliability with constituencies in- and outside the organization (Hannan & Freeman, 1984). Therefore organizations need to walk a tightrope between maintaining and changing their organizational parameters, which are strongly affected by institutions.

Acknowledging that organizational life also breeds institutional life, may provide the stepping stone for the analysis of how selection pressures at the organizational level affects those at the institutional level. This new line of research may provide useful clues as to how institutional and organizational isomorphism are interrelated.

Another new line of research that this thesis alludes to is how competitive processes may lead to the emergence of classification systems. Although classification systems have received much attention in the philosophical and the psychological disciplines (see e.g. (Lakoff, 1987; Murphy, 2002), it has been but marginally addressed in the economics and management science literature. Classification systems are usually accepted as a given, not as a subject for a study but as a means to demarcate its boundaries. While there is appreciation of the importance of classification systems, and especially the boundaries of genres, in the cultural industries (DiMaggio, 1987) the dynamics of classification systems are rarely taken into full account when studying economic phenomena in the sector, while at the same time classification has an evident impact upon the competitive process because only by categorizing, even if implicitly, products and product characteristics can economic value be determined.

Yet classifications and criteria are not contrived in a void; they are contingent upon the outcome of selection processes that operate at the level of the entities that do the classifying. Classifying a product implies understanding its (potential) value in relationship to other products. Not only does a product need to be distinguished from other categories of products, it also needs to be distinguished from other products within its own category. Distinguishing among products in the latter sense requires that products need to be categorized on their relative value.

Before being able to market their product they need to ensure that a classification system exists to guide prospective buyers. This entails that if the product cannot be understood by the existing classification system, a new product category with the accompanying criteria needs to be acknowledged by the market. Wijnberg (2004) distinguishes between incremental innovations that may need a new product classification but can be evaluated by the existing set of selectors and radical innovations that not only are in need of a new product classification but also of a new selection system as it rendered the old one obsolete. In doing so, these institutional entrepreneurs engage in re-classifying both markets (by creating new product categories) as well as industries (by creating a new niche for new organizations to inhabit).

Thus the success of an innovation hinges on whether or not it can be understood by prospective customers. And classification systems do just that: they serve as a vehicle to categorize the innovation by pointing out differences and similarities with existing categories thereby laying the groundwork for its cognition. More importantly, however, when an innovation causes new categories to be added or the classification system to be modified, it changes the parameters of the competitive process itself. As new categories emerge new entrepreneurial opportunities are discovered and new entrants soon follow suit. Research on how classification systems emerge does not only help to understand how product cognition takes form but it can inform us of the co-evolution between product diversity and industry structure.

In short, the classification of products centers on how product appraisals take place, implying that the study of the emergence of market institutions may reveal how new classification systems emerge. Although the psychological discipline is keen to acknowledge that categories are socially enacted (Murphy, 2002), this understanding of competitive processes may aid in the understanding of how classification is a by-product of economic exchange.

Nederlandse Samenvatting

Binnen de economische discipline is ruimschoots aandacht geschonken aan de conceptualisatie van het begrip 'markt' daar het ten grondslag ligt aan elke vorm van economisch gedrag. Als metafoor bleek de markt als conceptueel model zeer bruikbaar om inzichtelijk te maken hoe vraag en aanbod in evenwicht gebracht worden door middel van een interveniërend prijsmechanisme. Getoetst aan de aan de realiteit, echter, bleek het begrip weinig handreikingen te bieden om het feitelijke handelen van vragers en aanbieders te verklaren. Het grootste probleem ligt besloten in de aannames die gemaakt zijn ten aanzien van economisch gedrag. Met name het feit dat onzekerheid nauwelijks geïdentificeerd wordt als bepalende factor, vormt een fundamentele beperking voor de theoretische reikwijdte van vele gepostuleerde (evenwichts)modellen.

Dit proefschrift stelt dat de onzekerheid omtrent waarde, en omtrent hoe die waarde vastgesteld wordt op markten, sturend is voor het economische gedrag van producenten en consumenten. In de meeste traditionele economische modellen, zoals nog op middelbare scholen onderwezen, worden consumenten en producenten vaak gerepresenteerd als louter omhulsels van consumentenpreferenties en productiefuncties; zij worden door de markt naar een optimale evenwichtsuitkomst gevoerd. In verder uitgewerkte vormen van deze modellen kunnen producenten ook allerlei vormen van strategisch gedrag vertonen, bijvoorbeeld door beslag te leggen op schaarse productiemiddelen of door samen te spannen als oligopolisten, maar hun strategisch gedrag wordt zelden of nooit in verband gebracht met het proces van waardebepaling als zodanig. En ook in deze modellen blijft de consument veelal de passieve en onderbelichte partner in het marktproces. In dit proefschrift wordt juist nader ingegaan op de betekenis van de onzekerheid omtrent waarde en omtrent de vaststelling van waarde aan de vraagzijde en de onzekerheid die hierdoor ontstaat aan de aanbodzijde. Zoals in dit proefschrift blijkt is het effectief omgaan met die onzekerheden een belangrijke determinant van strategisch handelen en het bereiken van concurrentievoordelen door producenten.

Het is belangrijk te beseffen dat deze onzekerheid, zowel aan de kant van consumenten als aan de kant van producenten, tot onjuiste en daardoor kostbare beslissingen kan leiden. De producent kan een product vervaardigen dat niet afgenomen wordt; de consument een waardeloze aankoop begaan. Om de potentiële kosten te beperken zullen zowel producenten als consumenten op zoek gaan naar manieren om deze onzekerheid beter te kunnen beheersen en aldus de eventuele schadelijke gevolgen te beperken.

Dit risicomijdend gedrag zet een zoektocht in gang naar de communis opinio over hetgeen als waardevol gezien wordt op een bepaalde markt. Zowel de producent als de consument zijn geneigd om zich te voegen naar deze heersende mening, daar zij de gevolgen van hun geïsoleerde (en dus mogelijk schadelijke) waardeinschatting niet kunnen overzien. Maar hoe wordt deze heersende mening kenbaar gemaakt?

Dit proefschrift stelt dat op elke markt institutionele processen werkzaam zijn die ten doel hebben de waarde tot uitdrukking te brengen. Met behulp van institutionele theorie wordt een raamwerk geconstrueerd dat inzichtelijk maakt hoe de waarde op markten bepaald wordt. Echter in tegenstelling tot de meest gangbare lezing van instituties, is in dit proefschrift een perspectief gekozen waarbinnen instituties in de eerste plaats gezien worden als handelende actoren. Hiermee wordt overigens niet ontkend dat er actor-overstijgende instituties bestaan, maar dat deze instituties slechts begrepen kunnen worden als ze geconstrueerd worden door al dan niet bewust handelende actoren.

Voortbouwend op eerder onderzoek onderscheidt dit proefschrift drie verschillende selectiesystemen die omschrijven hoe de waardebepaling in markten tot stand komt. Waardebepaling kan geschieden door: 1) een expert; 2) een medeproducent, en 3) de consument zelf. In het eerste geval doet een expert, aan wie bepaalde kennis en expertise wordt toegeschreven, een uitspraak over de waarde van de concurrerende producten. In het tweede geval doet een medeproducent een uitspraak over welk product als waardevol gekenmerkt kan worden. In het derde geval schat de consument zelf de waarde in van het product. Hierbij dient opgemerkt te worden dat de verschillende systemen elkaar niet uitsluiten. Integendeel: vaak zullen de verschillende selectiesystemen naast elkaar bestaan en zelfs met elkaar concurreren. Wat echter van fundamenteel belang is om specifieke competitieve processen inzichtelijk te maken, is te bepalen welk selectiesysteem dominant is. Zo worden de markten voor muziek en farmaceutische producten gedomineerd door expert-selectie; de DJ of de dokter bepaalt wat waarde heeft en wat niet. Binnen de academische wereld wordt wat voor waardevolle wetenschap doorgaat veelal bepaald door academici, die zelf werkzaam zijn op deze markt. De redacteur van een tijdschrift bepaalt in samenspraak met zijn reviewers of het werk van een vakgenoot publicatiewaardig is. Wanneer de consument zichzelf in staat acht om de waarde te bepalen van het desbetreffende product, kan marktselectie de meest dominante vorm van selectie opleveren. Vaak blijkt echter, dat waarde niet eenvoudig is vast te stellen en dat waardebepaling een proces in werking zet dat niet transparant en eenduidig verloopt. Zo zullen veel consumenten hun keuze voor een bepaalde tandpasta zelf bepalen daar zij menen zelf goed te kunnen inschatten wat de waarde is van het desbetreffende product. Dit zou tot de overhaaste conclusie kunnen leiden dat louter marktselectie van belang is op de markt voor tandpasta. Echter meer dan eens verandert de consument van voorkeur na van de tandarts verstaan gekregen te hebben dat maar beter naar een ander merk tandpasta kan worden uitgekeken.

Ook zijn selectiesystemen geen statisch gegeven. Eerder onderzoek heeft inzichtelijk gemaakt dat vooral markten die in turbulentie verkeren vaak ook een verandering van het selectiesysteem doormaken. Zo bracht de opkomst van het impressionisme een verandering in het selectiesysteem op de kunstmarkt teweeg. Van een markt waarin de waardebepaling van de medekunstenaar centraal stond, evolueerde de markt zich naar één waarin de waardebepaling van de galerie, in haar rol als expert, de overhand kreeg.

Dit proefschrift neemt het selectiesysteem als uitgangspunt om strategievorming binnen competitieve processen nader te aanschouwen. Er worden twee rollen onderscheiden die de selectoren op zich nemen. Eerst maken de selectoren - bewust of onbewust – een keuze tussen welke producten zij in overweging nemen bij hun waarderingen en welke ze uitsluiten. Vervolgens doen de selectoren een impliciete of expliciete waardeuitspraak van de concurrerende producten. Een voorbeeld van een impliciete waarde uitspraak is het toekennen van zendtijd voor een bepaald poplied door de DJ. Zelfs zonder een expliciet oordeel van de DJ wordt de boodschap dat een bepaald popnummer waardevol genoeg is om gedraaid te worden overgebracht aan het luisterende publiek. Een voorbeeld van een expliciete waardebepaling is de wasmachinetest door de consumentengids.

Om competitief succes te behalen is het voor producent dus in eerste instantie van belang om te zorgen dat het product in overweging genomen wordt in de set die relevante de selector evalueert. Een wasmachine kan nog zo goed zijn, maar als de producent er niet in slaagt om deze opgenomen te krijgen in het vergelijkend warenonderzoek van de consumentenbond, zal de kans op commercieel succes lager zijn. Vervolgens moet de producent zorgen om een zo hoog mogelijke waarde te bewerkstelligen door een product te fabriceren volgens de criteria die de relevante selector hanteert. Dit impliceert dat de mate waarin de producent erin slaagt om te voldoen aan deze twee voorwaarden bepalend is voor de mate waarin een competitief voordeel behaald kan worden. De producenten zullen dus trachten om de relevante selectoren voor zich te winnen daar hier een groot commercieel belang mee gemoeid is. De mate waarin de producenten in deze opzet slagen, zal grote gevolgen hebben voor de mate waarin de handel al dan niet willekeurig geschiedt. Als namelijk de consumenten zich laten verleiden door hun aankopen te doen bij de producenten wiens producten worden aangeprezen door de selectoren zullen er systematische patronen te ontdekken zijn in de handelsrelaties die ontstaan tussen de betrokken partijen.

Dit proefschrift heeft ten doel om strategisch gedrag te verklaren door een analyse te maken van hoe producenten zich verhouden tot de relevante selectoren. Ten einde deze doelstellingen te bereiken zijn 4 studies ondernomen. Drie zijn empirisch van aard; één is theoretisch. De empirische studies betreffen twee kwantitatieve studies (hoofdstukken twee en drie) gebaseerd op survey data en een kwalitatieve studie gebaseerd op secundaire bronnen (hoofdstuk vier). De theoretische studie (hoofdstuk vijf) bouwt voort op de inzichten verkregen uit de empirische studies.

Ofschoon ik stel dat het gepostuleerde model belangrijke inzichten verschaft met betrekking tot elk willekeurig competitief proces, heb ik gekozen om mijn onderzoek te beperken tot de markt voor popmuziek. Naast het feit dat ik de markt voor muziek een aantrekkelijker onderzoeksdomein vind dan de markt voor koelkasten, bestaat er een aantal methodologische motivaties. Ten eerste is de markt voor muziek zeer geschikt voor de doelstellingen van deze studie daar het belang van een selector voor commercieel succes uitvoerig erkend wordt en dit element nog maar nauwelijks gebruikt is om strategische gedragsvorming te verklaren. Ten tweede ondervindt de muziekmarkt dusdanig sterke technologische veranderingen (denk aan de ICT revolutie) dat de notie dat er een verschuiving van het selectiesysteem kan plaatsvinden plausibel is.

In de eerste studie (hoofdstuk twee) wordt onderzocht hoe de creatie en toe-eigening van waarde geschiedt in de context van een bedrijfskolom. Gesteld wordt dat de industrie waarvan de perceptie bestaat dat er relatief weinig waarde wordt gecreëerd, maar veel waarde kan worden toegeëigend, bij uitstek de industrie is waarheen verticale integratie alsmede nieuwe markttoetreding zich bewegen. Om dit verband te onderzoeken is een vragenlijst opgesteld die afgenomen is bij 146 bedrijven die werkzaam zijn binnen de Nederlandse muziekindustrie. Het blijkt dat slechts producenten die een nauwe band onderhouden met de relevante selectoren een grotere kans van slagen hebben. In tegenstelling tot de verwachting, blijkt dat ICT met name muzikanten weinig extra mogelijkheden kon bieden om meer waarde toe te eigenen.

In de tweede studie (hoofdstuk drie) wordt het commerciële succes onderzocht van 215 nieuwe marktactiviteiten van 131 bedrijven werkzaam in de Nederlandse muziek industrie. In deze studie wordt gesteld dat het commerciële succes in grote mate afhangt van de legitimiteit die de organisatie geniet in de ogen van de interne en externe belanghebbers. Deze legitimiteit wordt gemeten aan de hand van de verschillende rollen waarmee de ondernemer zich vertrouwd heeft gemaakt (waaronder de interactie met de relevante selector) en aan de hand van de onderliggende doelstellingen die de ondernemer met deze markttoetreding wil bewerkstelligen. Logit, Probit, en Gompit analyses van primaire data suggereren dat bepaalde vormen van legitimiteit een beter predictor zijn voor commercieel succes dan andere.

De derde studie (hoofdstuk vier) onderzoekt de case van 'payola' aan het eind van de jaren '50 in Amerika. De term 'payola' slaat terug op de praktijk van het omkopen of verleiden van de (relevante) selector opdat deze de muziek van een bepaalde platenmaatschappij oneigenlijke voorrang verleent ten opzichte van de muziek van andere platenmaatschappijen. Hoewel payola altijd met argusogen werd gevolgd, nam het pas de vorm aan van een schandaal toen aan het eind van de jaren '50 bleek dat Amerikaanse DJs structureel geld ontvingen van platenmaatschappijen voor het draaien van muziek. Deze gebeurtenis viel samen met de inpalming van TV door de grote platenmaatschappijen, de zogenaamde 'majors', die meenden dat de relevante selector niet de lokale radio DJ was maar the new kid on the block: de TV host. De majors bleken echter op het verkeerde paard gegokt te hebben en hun marktaandeel slonk snel ten faveure van de kleine independents. Het succes van de kleine independents werd verklaard door het omkopen van de lokale radio. In dit hoofdstuk wordt nagegaan in hoeverre de majors een strategie aanhingen die erop geënt was om de lokale DJ in diskrediet te brengen door openlijk de authenticiteit van de DJ in twijfel te trekken. De lobby van de majors vond gehoor bij het Amerikaanse congres dat prompt een grootschalig onderzoek startte betreffende payola. De authenticiteit bleek de achilleshiel van de DJ want toen de omkooppraktijken publiekelijk aanhangig gemaakt werden, was hun geloofwaardigheid als de verkondigers van het nieuwe establishment niet meer waar te maken. Ze geleken immers meer geldwolven dan de bestrijders van het grootkapitaal en de gevestigde orde. Het resultaat van het onderzoek was dat de vele DJs van met name de lokale radiostations hun baan verloren oftewel in het gevang bellanden. Kort na de hoorzittingen begonnen de majors zich te verzoenen met de lokale radiostations met als gevolg dat hun marktaandeel weer snel terrein won.

In de vierde studie (hoofdstuk vijf), staat de ambiguïteit met betrekking tot waarde wederom centraal. Dit maal wordt niet alleen de uiteindelijke waarde van de finale producten geproblematiseerd maar ook de waarde van de productiemiddelen die nodig zijn in het productieproces. In deze theoretische studie wordt betoogd dat de strategische managementliteratuur tekortschiet met betrekking tot een heldere en eenvormige benadering van het bepalen van de waarde van productiemiddelen. Er wordt tevens betoogd dat de huidige theorie onvoldoende uitleg verschaft over hoe een productiemiddel tot een competitief voordeel leidt. De oorzaak ligt besloten in het feit dat de Resource-Based View geen direct verband legt tussen de markt voor productiemiddelen en de markt voor producten en zodoende niet inzichtelijk kan maken hoe een productiemiddel kan leiden tot een competitief voordeel in de uiteindelijke markt waar de finale producten verhandeld worden. Omdat dit verband ontbreekt, kan ook geen adequate uitspraak gedaan worden over hoe een productiemiddel van waarde kan zijn voor een bedrijf. Er worden drie nieuwe criteria gepostuleerd die gebruikt kunnen worden om de waarde van productiemiddelen te bepalen, precies omdat zij een direct verband leggen tussen de markt voor productiemiddelen en die voor eindproducten. Dit hoofdstuk levert een inzicht op dat de mate waarin de waarde van het productiemiddel transparant is voor degene die het ter beschikking stelt, mede de organisatievorm van het bedrijf bepaalt. Hiërarchische organisatievormen lijken effectiever zolang de waarde van het productiemiddel niet transparant is. Echter naarmate deze waarde meer expliciet is, zullen andere organisatiestructuren als de marktstructuur en de netwerkstructuur eerder de overhand krijgen.

Samengevat kan dit proefschrift gelezen worden als een verzameling van essays, die onderzoeken in hoeverre de onzekerheid ten aanzien van waarde het strategisch gedrag van prducenten beinvloedt. Door het centraal stellen van de institutionele structuren die opgetrokken zijn ter reductie van onzekerheid omtrent waardebepaling, is getracht betere verklaringen te vinden voor de aard van de marktrelaties die totstandkomen tussen de verschillende actoren, alsmede meer inzichtelijk te maken welke oorzaken het succes of falen van bepaalde vormen van strategisch gedrag van producenten determineren.

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Endnotes

1 Uncertainty remained an unwelcome guest even in more recent models of exchange. Think for instance of the world of Debreu (1959) where it was enough for value to be scarce for economic behavior to ensue.
2 White (1981) on the other hand argued that uncertainty may not result in the convergence of economic behavior, but may, on the contrary, elicit differentiating strategies on the part of the suppliers who, when faced with limited information about the dispositions of their prospective customers, take their competitive position relative to their rivals.
3 Although, the theory of value has been given ample attention within the economic discourse, it did not produce an unequivocal reading of value. Marxian, Ricardian and other cost-based theories of value hardly provide plausible pointers of how value could be readily evaluated by the consumers. Even the more subjective notions of value proposed by Ludwig von Mises and Friedrich von Hayek do not showcase how uncertainty regarding value sets in motion an endeavor on the part of the consumers and the producers to overcome the potential adverse effects of the decisions that are affected by this uncertainty.
4 This chapter has appeared as a publication in the Journal of Management Studies, Vol. 42, No. 2, pp. 251-276, March 2005.
5 The reader should bear in mind, however, that Figure 2 is an abridged model of the value system of the recorded music industries; a more detailed representation could be drawn up, including other actors such as, managers/agents, studio musicians, sound engineers/mixers and producers. Furthermore, marketing is not listed as a specific value creating activity because in principle marketing is an element relevant to every stage in the value system.
6 Conway Twitty was named after one of the most successful artists of the twentieth century in the US.
7 Bruderl and Schussler (1990) later nuanced the term and argued for a 'liability of adolescence' as the organizational mortality peaked between one and fifteen years of existence.
8 Here we employ terminology that was originally employed within the ecological literature. New entry de ipso was later added to the existing repertoire of new entry de alio and de novo, to denote entry that sprouted from existing businesses that were already represented in the same industry (Carroll & Hannan, 2000), we argue that the essence of new entry de ipso lies in having experience in the target industry.
9 All other results as well as the used questionnaire are available upon request from the authors.
10 Merriam-Webster Online Dictionary (www.webster.com)

11 As quoted in Segrave (1994) page 3.
12 As quoted in Segrave (1994) page 14.
13 As quoted in Segrave (1994)
14 Needless to say that in the long run the majors' firm belief in TV would prove them right, as the success of MTV indicates.
15 This changed after the introduction of Soundscan, a digital point-of-sale technique, which registers all the retail sales as they occur (Anand & Peterson, 2000).
16 The importance of distinguishing among value creation and value capture has also been acknowledged within the marketing discipline as well (Mizik & Jacobson, 2003).
17 Of course there are the obvious physical constraints to the extent to which a firm can unbundle its resources. A firm may feel compelled to unbundle 'in re' and 'ante rem' resources, but this may very well be impossible for they may both lie anchored in one indivisible unit of human or physical resource.